

International Frontier Resources Corporation

Interim Financial Statements

June 30, 2005

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International Frontier Resources Corporation
Financial Statements
For the six month interim period ended
June 30, 2005

(unaudited – prepared by Management)

National Instrument 51-102 Notice

The financial statements of International Frontier Resources Corporation (“the Company”) as at June 30, 2005 have been compiled by management.

These financial statements have not been reviewed or audited on behalf of the shareholders by the Company’s independent external auditors, Grant Thornton LLP.

International Frontier Resources Corporation

Interim Balance Sheets

(unaudited – prepared by Management)

	June 30, 2005	December 31, 2004
Assets		
Current		
Cash and cash equivalents	\$ 9,569,122	\$ 9,961,732
Receivables	460,018	195,095
Prepays	<u>47,388</u>	<u>12,273</u>
	10,076,528	10,169,100
Investment in Sidox Chemicals Canada Ltd. (Note 4)	325,000	-
Refundable deposits (Note 5)	1,382,750	351,500
Property and equipment (Note 6)	<u>6,017,975</u>	<u>4,270,408</u>
	<u>\$ 17,802,253</u>	<u>\$ 14,791,008</u>
Liabilities		
Current		
Payables and accruals	\$ 98,708	\$ 214,944
Asset retirement obligations (Note 7)	260,640	232,752
Future income taxes (Note 8)	604,136	668,488
Convertible debentures (Notes 9)	<u>91,563</u>	<u>216,860</u>
	<u>1,055,047</u>	<u>1,333,044</u>
Shareholders' Equity		
Share capital (Note 10b)	19,020,390	15,475,755
Contributed surplus	3,788,159	2,588,519
Equity component of convertible debentures	3,437	8,140
Warrants (Note 10d)	10	10
Deficit	<u>(6,064,790)</u>	<u>(4,614,460)</u>
	<u>16,747,206</u>	<u>13,457,964</u>
	<u>\$ 17,802,253</u>	<u>\$ 14,791,008</u>

Contingent liabilities (Note 13)

Subsequent events (Note 17)

On behalf of the Board

(Signed) "Wm. Patrick Boswell" Director **(Signed) "W.J. McNaughton"** Director

See accompanying notes to the financial statements.

International Frontier Resources Corporation

Interim Statements of Loss and Deficit

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue				
Oil and Gas	\$ 221,918	\$ 116,725	\$ 395,098	\$ 152,945
Less: royalties	<u>(35,900)</u>	<u>-</u>	<u>(80,338)</u>	<u>(36,220)</u>
	186,018	-	314,760	116,725
Interest	<u>56,184</u>	<u>4,744</u>	<u>113,836</u>	<u>5,978</u>
	<u>242,202</u>	<u>121,469</u>	<u>428,596</u>	<u>122,703</u>
Expenses				
Operating Costs	109,230	83,808	193,110	83,808
Depreciation	68,780	154,460	101,673	156,921
Accretion of asset retirement Obligations	5,180	-	11,351	
General and administration	104,932	169,974	209,805	471,188
Stock based compensation	-	-	1,423,260	58,714
Interest and bank charges	<u>48</u>	<u>1,977</u>	<u>4,080</u>	<u>1,993</u>
	<u>288,170</u>	<u>410,219</u>	<u>1,943,279</u>	<u>772,624</u>
Loss before income taxes	(45,968)	(288,750)	(1,514,683)	(649,921)
Income taxes (recovery)	<u>(43,654)</u>	<u>(23,676)</u>	<u>(64,352)</u>	<u>(53,788)</u>
Net loss	<u>\$ (2,314)</u>	<u>\$ (265,074)</u>	<u>\$ (1,450,331)</u>	<u>\$ (596,133)</u>
Loss per share				
Basic (Note 11)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>
Diluted (Note 11)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>
Deficit, beginning of period			\$ (4,614,459)	\$ (1,239,512)
Net loss			<u>(1,450,331)</u>	<u>(596,133)</u>
Deficit, end of period			\$ (6,064,790)	\$ (1,835,645)

See accompanying notes to the interim financial statements.

International Frontier Resources Corporation

Interim Statements of Cash Flows

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2005	2004	2005	2004
Increase (decrease) in cash and cash equivalents				
Operating				
Net loss	\$ (2,314)	\$ (265,074)	\$ (1,450,331)	\$ (596,133)
Depreciation	68,780	154,460	101,673	156,921
Accretion of asset retirement Obligations	5,180	-	11,351	-
Stock based compensation	-	-	1,423,260	58,714
Gain on sale of investment	-	-	(4,746)	-
Income tax (recovery)	(43,654)	(23,676)	(64,352)	(53,788)
Cash flow from operating activities	27,992	(134,290)	16,855	(434,286)
Change in non-cash operating working capital (Note 15)	28,627	277,392	(133,253)	359,365
	<u>56,619</u>	<u>143,102</u>	<u>(116,398)</u>	<u>(74,921)</u>
Investing				
Additions to petroleum and natural gas properties	(1,076,445)	(1,846,534)	(1,771,789)	(2,191,110)
Investment in Sidox Chemicals Canada Inc.	(235,000)	-	(235,000)	-
Change in non-cash investing working capital (Note 15)	872,599	(42,774)	(229,890)	160,839
	<u>(438,846)</u>	<u>(1,889,308)</u>	<u>(2,236,679)</u>	<u>(2,030,271)</u>
Financing				
Private placements	127,823	2,815,597	3,044,847	3,140,097
Convertible debentures	-	875,000	-	875,000
Deferred financing charge	-	-	-	-
Change in non-cash financing working capital (Note 15)	-	(92,200)	(53,130)	(108,055)
	<u>127,823</u>	<u>3,598,397</u>	<u>2,991,717</u>	<u>3,907,042</u>
Net decrease in cash and cash equivalents	(254,404)	1,852,191	638,640	1,801,850
Cash and cash equivalents, Beginning of period	11,206,277	1,269,949	10,313,233	1,320,290
End of period	\$ <u>10,951,873</u>	\$ <u>3,122,140</u>	\$ <u>10,951,873</u>	\$ <u>3,122,140</u>
Cash and cash equivalents is represented by:				
Cash and temporary investments			\$ 9,569,122	\$ 2,519,174
Refundable deposits			<u>1,382,750</u>	<u>602,426</u>
			\$ <u>10,951,872</u>	\$ <u>3,122,140</u>

See accompanying notes to the interim financial statements.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

1. Nature of operations

The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves. These activities are conducted in one cost centre, being Canada.

The costs associated with the acquisition and development thereon to date is recognized in these financial statements in accordance with the accounting policies outlined in Note 2. Accordingly, their carrying value represents costs incurred to date and do not necessarily reflect present or future values. The recoverability of these amounts is dependent upon the existence of economically recoverable petroleum and natural gas reserves.

2. Significant accounting policies

The interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2004. The interim financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2004.

3. Change in accounting policies

- a) Effective January 1, 2004, the Company retroactively adopted the new Canadian accounting standard as outlined in CICA Handbook section 3110 "Asset Retirement Obligations". Prior to January 1, 2004, the Company had not incurred any obligation for restorations. As such, the adoption of the new standard did not effect any period prior to 2004.
- b) Effective January 1, 2004, the Company adopted CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost". The new guideline modifies the way the impairment test is performed and requires cost centres be tested for recoverability using undiscounted future cash flows from proved reserves plus the cost of undeveloped properties. When the carrying amount of the asset is not recoverable, the asset would be written down to its fair value. Fair value is determined to be discounted cash flow plus the cost of undeveloped properties. Discounted cash flow is calculated using a present value technique that incorporates proved plus probable reserves, prices that are consistent with those used by the Company in developing other corporate information and a risk free interest rate.
- c) Effective January 1, 2004, the Company adopted the standards outlined in CICA Handbook section 3063, "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of any impairment of long-lived assets comprised of office equipment. An impairment is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company estimates fair value based upon current prices for similar assets. The accounting policy has been adopted prospectively and had no impact on the financial statements.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

4. Investment in Sidox Chemicals Canada Ltd.

In June 2005, the patent owner of Sidox exercised its right to acquire 50% of the issued and outstanding shares of the Company's wholly owned subsidiary Sidox Chemicals Canada Ltd. ("Sidox Canada"). As a result the Company purchased 50% of the outstanding shares of Sidox Canada for a cash consideration of \$135,000 and payment in kind of \$90,000 through provision of 2 tonnes of Sidox material at \$45,000 per tonne. In addition, the Company was obligated to pay \$100,000 on behalf of Sidox Canada to acquire an exclusive licensing agreement to the patented technology Sidox in Canada. The investment in Sidox Canada has been recorded at cost at June 30, 2005.

5. Refundable Deposits

As at June 30, 2005, the Company has provided an assignment of cash totalling \$41,500 (2004 - \$41,500) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 416 (see Note 13). As at June 30, 2005 an application has been made for a refund of this deposit.

As at June 30, 2005, the Company has provided an assignment of cash totalling \$310,000 (2004 - \$310,000) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 423 (see Note 13).

As at June 30, 2005 the Company has provided and assignment of cash totalling \$781,250 (2004 - \$nil) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 429 (see Note 13).

As at June 30, 2005 the Company has provided and assignment of cash totalling \$250,000 (2004 - \$nil) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 432 (see Note 13).

6. Property and equipment

June 30, 2005

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 7,668,666	\$ 1,682,070	\$ 5,986,596
Office furniture and equipment	<u>78,209</u>	<u>46,830</u>	<u>31,379</u>
	<u>\$ 7,836,875</u>	<u>\$ 1,728,900</u>	<u>\$ 6,017,975</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

6. Property and equipment (continued)

December 31, 2004

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 5,807,225	\$ 1,584,321	\$ 4,222,904
Office furniture and equipment	76,209	42,906	33,303
Options	<u>14,201</u>	<u>-</u>	<u>14,201</u>
	<u>\$ 5,897,635</u>	<u>\$ 1,627,227</u>	<u>\$ 4,270,408</u>

The Company has financed a portion of its exploration and development activities from the proceeds of flow-through share issues. As a result, petroleum and natural gas properties with a cost of \$4,899,473 (2004 - \$4,899,473) have no cost basis for income tax purposes. During the six months ended June 30, 2005, \$38,250 (2004 - \$59,043) of overhead expenses directly related to exploration and development activities were capitalized and \$6,729 (2004 - \$38,594) of interest expense was capitalized. Also during the six months ended June 30, 2005 \$65,490 (2004 - \$549,228) of expenses incurred in conducting a pilot project to test the Sidox product were capitalized to petroleum and natural gas properties.

As at June 30, 2005, undeveloped properties with a cost of \$5,248,344 (2004 - \$3,550,670) included in petroleum and natural gas properties have not been subject to depletion.

As at June 30, 2005 a \$20,500 (2004 - \$859,273) impairment of petroleum and natural gas assets has been recorded to reflect the excess carrying amount of assets over fair value of future reserves. This amount is included in depletion and depreciation on the statements of loss and deficit.

During June 2005 the cost of securing an option to acquire an exclusive licensing agreement for the Sidox product in Canada was exercised by the Company on behalf of Sidox Canada for a payment of \$100,000 to the patent owner of Sidox.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

7. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at June 30, 2005 is approximately \$410,000 (2004 - \$360,000). A credit-adjusted risk-free rate of 9 % was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	Six months ended <u>June 30, 2005</u>	Year ended <u>December 31, 2004</u>
Balance, beginning of period	\$ 232,752	\$ -
Liabilities incurred	16,537	211,748
Liabilities settled	-	-
Accretion expense	<u>11,351</u>	<u>21,004</u>
Balance, end of period	<u>\$ 260,640</u>	<u>\$ 232,752</u>

8. Income taxes

- a) The total provision for income taxes differs from the expected amount calculated by applying the combined federal and provincial tax rate of approximately 33.60% (2004 - 39.50%) to loss before income taxes. This difference results from the following items:

	Six months ended <u>June 30, 2005</u>	Year ended <u>December 31, 2004</u>
Loss before income taxes	\$ <u>(1,514,683)</u>	\$ <u>(4,037,542)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (508,932)	\$ (1,554,454)
Increase (decrease) resulting from:		
Statutory rate change	(89,237)	(1,549)
Resource allowance	11,782	50,882
Stock-based compensation	478,215	796,128
Other	<u>43,820</u>	<u>46,399</u>
Future income tax recovery	<u>\$ (64,352)</u>	<u>\$ (662,594)</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

8. Income taxes (continued)

b) Future income taxes consist of the following temporary differences:

	<u>June 30,</u> <u>2005</u>	December 31, <u>2004</u>
Property and equipment	\$ 1,240,166	\$ 1,401,078
Asset retirement obligations	(87,575)	(89,610)
Share issue costs	(203,910)	(266,071)
Non-capital losses carry-forward	(328,603)	(361,378)
Other	<u>(15,942)</u>	<u>(15,531)</u>
	<u>\$ 604,136</u>	<u>\$ 668,488</u>

9. Convertible debentures

On June 4, 2004, the Company issued convertible redeemable debentures for total proceeds of \$975,000. The debentures have a term of four years, pay interest at a rate of 9.5% per year and are convertible into common shares at \$0.60 per share in year 1, \$0.65 per share in year 2, \$0.70 per share in year three and \$0.75 per share in year four.

The Company's convertible debentures are presented in their component parts. The debt component represents the present value of the payment obligations, interest and principal, to be satisfied in cash, discounted at the rate of interest that would be applicable to a debt-only instrument of comparable term and risk. The residual amount of the debenture represents the equity component and is presented in shareholders' equity. These component parts have been measured at their respective estimated fair values at the time the convertible debentures were originally issued.

As at June 30, 2005 \$880,000 (2004 - \$750,000) of debentures had been converted into 1,466,667 (2004 - 1,249,990) common shares of the Company. At June 30, 2005 the fair value of the remaining \$95,000 of convertible debentures is approximately \$91,563.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

10. Share capital

a) Authorized

Unlimited common shares

Unlimited preferred shares

b) Issued

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Common shares				
Beginning of year	32,006,580	\$ 15,475,755	15,034,918	\$ 3,743,098
Issued for cash	-	-	6,861,250	5,581,363
Issued upon exercise of warrants	2,183,070	2,843,848	5,267,500	3,010,925
Issued upon exercise of options	480,000	424,620	430,000	305,230
Issued upon conversion of debentures	216,666	130,000	1,472,212	850,000
Flow-through shares, net of tax effect	-	-	2,940,700	2,454,145
Issued upon acquisition of properties	75,000	150,000		
Tax effected share issue costs	-	(3,833)	-	(496,006)
Balance, end of period	<u>34,961,316</u>	<u>\$ 19,020,390</u>	<u>32,006,580</u>	<u>\$ 15,475,755</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

c) Stock options

The Company has a stock option plan available to officers, directors, employees and key consultants, of the Company. For the period ended June 30, 2005, the Company issued 900,000 options at an exercise price of \$1.84 per share. During the period, 480,000 options were exercised at an average price of \$0.42 per share.

<u>Outstanding and exercisable</u>	<u>June 30,</u> <u>2005</u>		<u>December 31,</u> <u>2004</u>	
	<u>Number of</u> <u>Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number of</u> <u>Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Beginning of year	2,810,000	\$ 1.02	1,435,000	\$ 0.42
Granted	900,000	\$ 1.85	1,805,000	\$ 1.34
Exercised	(480,000)	\$ 0.42	(430,000)	\$ 0.39
Cancelled	-	\$ -	-	\$ -
Balance, end of period	<u>3,230,000</u>	<u>\$ 1.34</u>	<u>2,810,000</u>	<u>\$ 1.02</u>

<u>Expiry dates</u>	<u>March 31,</u> <u>2005</u>		<u>December 31,</u> <u>2004</u>	
	<u>Number of</u> <u>Options</u>	<u>Price</u>	<u>Number of</u> <u>Options</u>	<u>Price</u>
April 10, 2008	15,000	\$ 0.25	90,000	\$ 0.25
December 23, 2008	685,000	\$ 0.45	1,090,000	\$ 0.45
January 26, 2008	90,000	\$ 0.50	90,000	\$ 0.50
April 1, 2009	90,000	\$ 0.45	90,000	\$ 0.45
November 16, 2009	650,000	\$ 1.50	650,000	\$ 1.50
December 23, 2009	800,000	\$ 1.60	800,000	\$ 1.60
February 11, 2010	900,000	\$ 1.80	800,000	\$ 1.60
	<u>3,230,000</u>	<u>\$ 1.34</u>	<u>2,810,000</u>	<u>\$ 1.02</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

c) Stock options (continued)

Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.25 - \$0.50	880,000	3.51	\$ 0.45	880,000	\$ 0.45
\$1.50 - \$1.85	2,350,000	4.51	\$ 1.67	2,350,000	\$ 1.67
	<u>3,230,000</u>	<u>4.52</u>	<u>\$ 1.34</u>	<u>3,230,000</u>	<u>\$ 1.34</u>

The weighted average fair market value of options granted for the period ended June 30, 2005 is \$1.85 per option (2004 - \$1.15 per option). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2005	December 31, 2004
Risk-free interest rate	3.56%	3.75%
Estimated hold period prior to exercise (years)	5	5
Volatility in price of the Company's shares	121.57%	121.57%
Dividend yield rate	0%	0%

d) Warrants

Warrants outstanding are as follows:

	June 30, 2005		December 31, 2004	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	12,398,225	\$ 10	5,420,000	\$ 10
Issued in conjunction with				
Private Placement	-	-	250,000	-
Private Placement (ii)	-	-	12,128,000	-
Flow-through shares (iii),(iv)	-	-	1,565,225	-
Exercised	(4,123,670)	-	(6,915,000)	-
Expired	-	-	(50,000)	-
Balance, end of period	<u>8,274,555</u>	<u>\$ 10</u>	<u>12,398,225</u>	<u>\$ 10</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

d) Warrants (continued)

	<u>June 30, 2005</u>			<u>December 31, 2004</u>		
	<u>Number of Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Number of Common Shares for Exercise of Warrants</u>	<u>Number of Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Number of Common Shares for Exercise of Warrants</u>
Private Placement (i)	2,000,000	\$ 0.35	2,000,000	2,000,000	\$ 0.25	2,000,000
Private Placement (ii)*	-	\$ -	-	2,769,000	\$ 1.15	1,384,500
Private Placement (ii)*	4,935,800	\$ 1.50	2,492,900	6,064,000	\$ 1.50	3,032,000
Flow-through Shares (iii), (iv)	<u>1,338,755</u>	<u>\$ 1.75</u>	<u>1,390,368</u>	<u>1,565,225</u>	<u>\$ 1.75</u>	<u>1,565,225</u>
	<u>8,274,555</u>	<u>\$ 1.24</u>	<u>5,883,268</u>	<u>12,398,225</u>	<u>\$ 1.18</u>	<u>7,981,725</u>

* Represents one full warrant. Two full warrants entitles the holder to acquire one common share at the price indicated.

- i) As of June 11, 2003, the Company acquired 100% of Sidox Canada. The consideration paid for the purchase of all of the issued and outstanding shares of Sidox Canada is the issuance of 2,000,000 non-transferable performance warrants with a deemed value of \$10, entitling holders to acquire one common share at \$0.25 for two years and \$0.35 in the third year. The warrants can only be exercised if Sidox Canada acquires a ten year exclusive license for Sidox and if wells in which the Company holds an interest that have been treated with Sidox achieve a minimum 25% barrel of oil per day increase for a period of 100 days. The purchase of Sidox Canada was from a company controlled by a director of the Company.
- ii) In conjunction with a private placement occurring May 17, 2004 and closing July 19, 2004, the Company issued 6,064,000 units at \$0.80 per unit for total proceeds of \$4,851,200. Each unit consists of one common share, one Series "A" warrant and one Series "B" warrant. Two Series "A" warrants entitle the holder to acquire one common share at \$1.15 per share for a period of 180 days. Two Series "B" warrants entitle the holder to acquire one common share at \$1.50 for a period of 365 days. Series "B" warrants can only be exercised if the holder has exercised the Series "A" warrant. At June 30, 2005, all of the Series "A" warrants and 1,128,200 of the Series "B" warrants have been exercised

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June 30, 2005

d) Warrants (continued)

- iii) In conjunction with a private placement occurring September 29, 2004 and closing October 26, 2004 the Company issued 2,530,000 flow-through share units at \$1.35 per unit for total proceeds of \$3,415,500. Each unit consists of one common flow-through share and one-half Series "C" warrant. One full warrant entitles the holder to purchase one additional non-flow through common share at a price of \$1.75 on or before June 30, 2005. A commission of 7.5% was paid to the Underwriters by issuance of 189,750 non-flow through units consisting of one common share and one half warrant having the same terms and conditions as the units comprised in the offering.
- iv) In conjunction with a non-brokered private placement occurring November 10, 2004 and closing on December 23, 2004, the Company issued 410,700 flow-through share units at \$1.40 per unit for total proceeds of \$574,980. Each unit consists of one common flow-through share and one-half Series "C" warrant. One full warrant entitles the holder to purchase one additional non-flow through common share at a price of \$1.75 on or before June 30, 2005.

11. Per share amounts

Basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Diluted net loss per common share is computed by dividing net loss by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Loss per share on a diluted weighted average basis is the same as that presented for basic, as all factors are anti-dilutive.

Weighted average shares outstanding:

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Basic, beginning of period	36,814,710	14,834,918
Shares reserved pursuant to options	482,500	133,198
Shares issued pursuant to private placement	-	606,814
Shares reserved pursuant to conversion of debenture	93,338	42,735
Shares reserved pursuant to warrants	<u>1,500,000</u>	<u>1,579,175</u>
Fully diluted, end of period	<u>38,890,548</u>	<u>17,196,840</u>

In calculating fully diluted common share amounts for the six months ended June 30, 2005, the Company excluded 8,624,555 options and warrants (2004 – nil), because the exercise price was greater than the average market price of its common shares in those periods.

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12. Related party transactions

During the period, the Company paid consulting fees to certain officers and directors.

	Six months ended <u>June 30, 2005</u>	Year ended <u>December 31, 2004</u>
Consulting fees	\$ 93,000	\$ 155,120
Debenture interest	<u>-</u>	<u>2,000</u>
	<u>\$ 93,000</u>	<u>\$ 157,120</u>

13. Contingent liabilities

- a) The Company has lodged a letter of credit in the amount of \$41,500 for its share of a \$381,608 refundable deposit on NWT Exploration License No. 416. The letter of credit is secured by an assignment of cash of \$41,500. The Company is contingently liable under the letter of credit for any portion of a \$1,526,430 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-416.

The work commitment on EL-416 has been fulfilled and an application has been submitted for a refund of \$381,608.

- b) The Company has lodged a letter of credit in the amount of \$310,000 for its share of a \$6,200,000 refundable deposit on NWT Exploration License No. 423. The letter of credit is secured by an assignment of cash of \$310,000. The Company is contingently liable under the letter of credit for any portion of a \$24,800,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-423.

At June 30, 2005 no qualified expenditures have been incurred on EL-423.

- c) The Company has lodged a letter of credit in the amount of \$781,250 for its share of a \$3,125,000 refundable deposit on NWT Exploration License No. 429. The letter of credit is secured by an assignment of cash of \$781,250. The Company is contingently liable under the letter of credit for any portion of a \$12,500,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-429.

At June 30, 2005 no qualified expenditures have been incurred on EL-429.

- d) The Company has lodged a letter of credit in the amount of \$250,000 for its share of a \$1,000,000 refundable deposit on NWT Exploration License No. 432. The letter of credit is secured by an assignment of cash of \$250,000. The Company is contingently liable under the letter of credit for any portion of a \$4,000,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-416.

At June 30, 2005 no qualified expenditures have been incurred on EL-432.

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14. Financial Instruments

As disclosed in Note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, interest rate and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

a) Commodity price risk

The Company will be subject to commodity price risk for the delivery of natural gas and crude oil.

b) Credit risk

Substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

15. Supplemental cash flow information

Changes in non-cash working capital items increase (decrease) cash as follows:

Six months ended June 30,	<u>2005</u>	<u>2004</u>
Receivables	\$ (116,235)	\$ 197,169
Prepays	(264,924)	6,500
Payables and accruals	<u>(35,114)</u>	<u>208,480</u>
	\$ <u>(416,273)</u>	\$ <u>412,147</u>
Operating activities	\$ (133,253)	\$ 359,365
Investing activities	(229,890)	160,839
Financing activities	<u>(53,130)</u>	<u>(108,055)</u>
	\$ <u>(416,273)</u>	\$ <u>412,149</u>
Interest paid	\$ <u>11,829</u>	\$ <u>-</u>

16. Commitments

The Company is party to an agreement to lease its premises until December 31, 2006. The annual rent of premises consists of a minimum rent plus occupancy costs. Minimum rent payable for premises until the end of the lease are as follows:

2005	\$ 53,370
2006	\$ 53,370

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17. Subsequent events

All Series “B” warrants and Series “C” warrants outstanding at June 30, 2005 expired on July 1, 2005.