



International Frontier Resources Corporation  
Interim Consolidated Financial Statements  
For The Three and Nine Month Periods Ended  
September 30, 2008 and 2007

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# **International Frontier Resources Corporation**

## **Consolidated Financial Statements**

**For the three and nine month periods ended September 30, 2008 and 2007**  
(Unaudited)

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National Instrument 51-102 Notice

The consolidated financial statements of International Frontier Resources Corporation (“the Company”) for the three and nine month periods ended September 30, 2008 and 2007 have been compiled by management.

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

## International Frontier Resources Corporation

### Consolidated Balance Sheets

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 9)	\$ 10,108,265	\$ 25,316,940
Receivables	221,715	1,227,990
Prepays	<u>81,885</u>	<u>162,690</u>
	<b>10,411,865</b>	<b>26,707,620</b>
Restricted cash on deposit (Note 10a))	2,267,175	2,267,175
Property and equipment (Note 5)	29,975,330	17,504,875
Inventory	78,075	82,125
Intangibles	<u>31,250</u>	<u>35,000</u>
	<b>\$ 42,763,695</b>	<b>\$ 46,596,795</b>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 1,598,730	\$ 4,207,115
Convertible debentures	-	62,650
Current portion of asset retirement obligations	<u>-</u>	<u>30,000</u>
	<b>1,598,730</b>	<b>4,299,765</b>
Asset retirement obligations	334,285	306,020
Future income taxes	<u>3,229,630</u>	<u>1,141,630</u>
	<b>5,162,645</b>	<b>5,747,415</b>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	42,064,435	44,121,725
Warrants (Note 6)	-	3,757,090
Contributed surplus (Note 6)	10,540,030	6,732,940
Equity component of convertible debentures	-	2,350
Deficit	<u>(15,003,415)</u>	<u>(13,764,725)</u>
	<b>37,601,050</b>	<b>40,849,380</b>
	<b>\$ 42,763,695</b>	<b>\$ 46,596,795</b>

Nature of operations (Note 1)  
Commitments and contingencies (Note 10)

On behalf of the Board

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

See accompanying notes to the interim consolidated financial statements.

## International Frontier Resources Corporation

### Consolidated Statements of Operations, Comprehensive Earnings (Loss) and Deficit

(unaudited – prepared by Management)

	<u>Three Months ended September,</u>		<u>Nine Months Ended September 30,</u>	
	2008	2007	2008	2007
Revenue				
Oil	\$ 331,330	\$ 240,025	\$ 1,026,850	\$ 568,520
Less: royalties	<u>(75,840)</u>	<u>(53,110)</u>	<u>(200,785)</u>	<u>(116,960)</u>
	<b>255,490</b>	186,915	<b>826,065</b>	451,560
Interest income	<b>80,820</b>	260,935	<b>443,290</b>	807,380
Foreign exchange gain	<u>-</u>	<u>-</u>	<u>29,050</u>	<u>-</u>
	<b><u>336,310</u></b>	<u>447,850</u>	<b><u>1,298,405</u></b>	<u>1,258,940</u>
Expenses				
Field operating costs	<b>76,380</b>	90,260	<b>287,065</b>	362,600
Depletion and depreciation and impairments	<b>58,020</b>	43,395	<b>1,689,560</b>	112,885
Accretion	<b>3,800</b>	3,330	<b>12,875</b>	14,085
Foreign exchange loss	<b>2,070</b>	-	-	184,260
General and administration	<b>106,855</b>	127,990	<b>442,430</b>	587,245
Non - recoverable Sidox costs	-	-	<b>105,165</b>	-
Stock based compensation	<u>-</u>	<u>151,585</u>	<u>-</u>	<u>1,851,725</u>
	<b><u>247,125</u></b>	<u>416,560</u>	<b><u>2,537,095</u></b>	<u>3,112,800</u>
Earnings (loss) before income taxes	<b>89,185</b>	31,290	<b>(1,238,690)</b>	(1,853,860)
Future income tax recovery	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>(104,990)</u>
Net earnings (loss) and Comprehensive income (loss)	<b><u>\$ 89,185</u></b>	<b><u>\$ 21,290</u></b>	<b><u>\$ (1,238,690)</u></b>	<b><u>\$ (1,748,870)</u></b>
Deficit, beginning of period			<b><u>(13,764,725)</u></b>	<u>(7,681,340)</u>
Deficit, end of period			<b><u>\$ (15,003,415)</u></b>	<b><u>\$ (9,430,210)</u></b>
<b>Net earnings (loss) per share</b>				
Basic and diluted (Note 8)	<b><u>\$ 0.00</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ (0.02)</u></b>	<b><u>\$ (0.04)</u></b>

See accompanying notes to the interim consolidated financial statements.

# International Frontier Resources Corporation

## Consolidated Statements of Cash Flows

(unaudited)

	<u>Three Months ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2008	2007	2008	2007
<b>Operating</b>				
Net earnings (loss)	\$ 89,185	\$ 21,290	\$ (1,238,690)	\$ (1,748,870)
Non cash items				
Depletion and depreciation and impairments	58,025	43,395	1,689,560	112,885
Accretion	3,800	3,330	12,875	14,085
Non - recoverable Sidox costs	-	-	105,165	-
Stock based compensation	-	-	105,165	1,851,725
Future income tax recovery	-	10,000	-	(104,990)
Asset retirement liabilities settled	(2,605)	(5,505)	(14,615)	(91,080)
	<b>148,400</b>	72,510	<b>554,295</b>	33,755
Change in non-cash operating working capital (Note 9)	<u>289,945</u>	<u>(215,960)</u>	<u>(422,000)</u>	<u>(478,160)</u>
	<b>438,345</b>	<u>(143,450)</u>	<b>132,295</b>	<u>(444,405)</u>
<b>Investing</b>				
Additions to property and equipment	(1,608,285)	(1,646,405)	(14,157,380)	(2,074,045)
Restricted cash on deposit - (Note 9)	-	-	-	(374,305)
Change in non-cash investing working capital (Note 9)	<u>1,183,450</u>	<u>(393,935)</u>	<u>(1,099,300)</u>	<u>(602,125)</u>
	<b>(424,835)</b>	<u>(2,040,340)</u>	<b>(15,256,680)</b>	<u>(3,050,475)</u>
<b>Financing</b>				
Private placements	-	-	-	22,700,000
Share issue costs	-	-	30,710	(2,002,515)
Contributed surplus - Sidox license	-	-	(50,000)	-
Convertible debenture	-	-	(65,000)	-
	<u>-</u>	<u>-</u>	<u>(84,290)</u>	<u>20,697,485</u>
Net increase (decrease) in cash and cash equivalents	<b>13,510</b>	(2,183,790)	<b>(15,208,675)</b>	17,202,605
Cash and cash equivalents, Beginning of period	<u>10,094,755</u>	31,239,940	<u>25,316,940</u>	11,853,545
End of period	<b>\$ 10,108,265</b>	<u>\$ 29,056,150</u>	<b>\$ 10,108,265</b>	<u>\$ 29,056,150</u>
Cash and cash equivalents are comprised of:				
Cash on hand	\$ 1,675,835	\$ 4,973,460	\$ 1,675,835	\$ 4,973,460
Short-term Banker's Acceptances	<u>8,432,430</u>	<u>24,082,690</u>	<u>8,432,430</u>	<u>24,082,690</u>
Total	<b>\$ 10,108,265</b>	<u>\$ 31,239,940</u>	<b>\$ 10,108,265</b>	<u>\$ 31,239,940</u>

See accompanying notes to the interim consolidated financial statements.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

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### 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 two geographical areas, being Canada and the United Kingdom.

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### 2. Principles of presentation

These unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada following the same accounting policies and methods of application as the consolidated financial statements of the Company for the year ended December 31, 2007, except as disclosed in Note 3 below. The disclosures provided below are incremental to those included in the Company's annual consolidated financial statements. The unaudited interim consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2007.

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries and are presented in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2007 as filed on SEDAR at [www.sedar.com](http://www.sedar.com). Except as noted below, these financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2007. The disclosures provided below are incremental to those included with the year end financial statements.

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### 3. Changes in accounting policies

- (a) On January 1, 2008, the Company adopted Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

#### Capital Disclosures

CICA Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

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### 3. Changes in accounting policies (Continued)

#### Financial Instruments

CICA Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. These Sections will require the Company to increase disclosure on the nature and extent of risks arising from financial instruments and how the entity manages those risks. (Note 12)

#### General Standards for Financial Statements Presentation

The CICA has amended Section 1400, "General Standards of Financial Statement Presentation", which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern.

- (b) Effective January 1, 2008, the CICA has issued accounting standard Section 3031 "Inventories". Section 3031 "Inventories" provides guidance on the method of determining the cost of the Company's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The Company currently reflects materials and supplies at the lower of cost and replacement value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 "Inventories" did not impact the Company's financial statements.

The adoption of these new accounting standards did not impact the amounts reported in the Company's financial statements; however, it did result in expanded not disclosure (see Note 10).

- (c) The Company is assessing the new and revised accounting pronouncements that have been issued that are not yet effective:
- The CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.
  - In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.



# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

### 4. Capital Management

The Company is in the business of oil and gas property exploration in Canada and in the United Kingdom. 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 from these properties, the Company does earn some revenue from properties owned in Alberta, The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of both its exploration programs and its administrative costs. 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 shareholders' equity (excluding accumulated other comprehensive income (loss)), cash and cash equivalents, marketable securities and short term portion of restricted cash less accounts payable in the definition of capital. Management reviews its capital management requirements on an ongoing basis and believes that its approach, given the relative size of the Company is reasonable. The Company is not subject to externally imposed capital requirements.

### 5. Property and equipment

#### September 30, 2008

	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Impairments</u>	<u>Net Book Value</u>
Petroleum and natural gas properties			
Canada	\$ 27,900,925	\$ 4,835,925	\$ 23,065,000
United Kingdom	<u>11,172,135</u>	<u>4,280,860</u>	<u>6,891,275</u>
	<u>39,073,060</u>	<u>9,116,785</u>	<u>29,956,275</u>
Office furniture and equipment	<u>84,890</u>	<u>65,925</u>	<u>19,055</u>
	<u>\$ 39,158,040</u>	<u>\$ 9,182,710</u>	<u>\$ 29,975,330</u>

#### December 31, 2007

	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Impairments</u>	<u>Net Book Value</u>
Petroleum and natural gas properties			
Canada	\$ 18,524,665	\$ 3,153,655	\$15,371,010
United Kingdom	<u>6,394,675</u>	<u>4,280,860</u>	<u>2,113,815</u>
	24,919,340	7,434,515	17,484,825
Office furniture and equipment	<u>82,480</u>	<u>62,430</u>	<u>20,050</u>
	<u>\$ 25,001,820</u>	<u>\$ 7,496,945</u>	<u>\$ 17,504,875</u>

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

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#### 5. Property and equipment (continued)

##### Canada

During the period, \$47,985 (December 31, 2007 - \$411,450) of overhead expenses directly related to exploration activities in the Northwest Territories were capitalized. Of these amounts, \$2,060 (December 31, 2007 - \$6,175) related to interest expense capitalized for activities in the Northwest Territories. Also included in the above amounts are, \$Nil (2007 - \$294,800) of stock option costs recognized in the period that were capitalized to undeveloped properties in the Northwest Territories.

As at September 30, 2008 the Company has accumulated capital expenditures for land, seismic, and drilling in the Central Mackenzie Valley, Northwest Territories of \$27,900,925 (December 31, 2007 - \$18,524,665). Included in this amount are costs of \$21,774,910 (December 31, 2007 - \$13,805,330) which have been included in petroleum and natural gas properties as undeveloped properties and have not been included in the respective cost centers for purposes of calculating depletion.

During the period, \$1,433,080 (2007 - \$Nil) of costs related to drilling one dry hole in 2008 has been recorded as an impairment of petroleum and natural gas assets and are included in depletion.

##### North Sea

During the period, \$45,925 (December 31, 2007 - \$614,150) of overhead expenses directly related to exploration activities in the North Sea were capitalized. Included in the above amounts are, \$Nil (December 31, 2007 - \$111,835) of stock option costs recognized in the period that were capitalized to undeveloped properties in the North Sea.

As at September 30, 2008 the Company has accumulated capital expenditures for land, seismic, and drilling in the North Sea of \$11,172,135 (December 31, 2007 - \$6,394,675). Included in this amount are costs of \$7,190,510 (December 31, 2007 - \$2,413,000) which have been included in petroleum and natural gas properties as undeveloped properties and have not been included in the respective cost centers for purposes of calculating depletion.

In 2007 \$4,280,860 costs related to drilling three dry holes in the North Sea were recorded as an impairment of petroleum and natural gas assets and were included in depletion in that period. There was no impairment of petroleum and natural gas assets for the nine month period ended September 30, 2008.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

### 6. Share capital

#### a) Authorized:

Unlimited common shares  
Unlimited preferred shares

#### b) Issued:

	<b>September 30, 2008</b>		December 31, 2007	
	<u>of Shares</u>	<u>Number Amount</u>	<u>of Shares</u>	<u>Number Amount</u>
<b>Common shares</b>				
Beginning of period	59,578,965	\$ 44,121,725	42,041,465	\$ 26,410,600
Issued for cash (i)	-	-	12,400,000	15,500,000
Issued for services (ii)	-	-	100,000	125,000
Value attributed to warrants	-	-	-	(3,757,090)
Flow-through shares (iii, iv)	-	-	5,037,500	7,390,000
Tax effect of flow shares	-	(2,088,000)	-	-
Share issue costs	-	30,710	-	(1,546,785)
Balance, end of period	<b>59,578,965</b>	<b>\$ 42,064,435</b>	59,578,965	\$ 44,121,725

(i) In conjunction with a bought deal financing on February 22, 2007 the Company issued 12,400,000 units at a price of \$1.25 per unit, for gross proceeds of \$15,500,000. Each unit is comprised of one common share and one-half warrant. One full warrant entitles the holder thereof with the right to purchase one common share at \$1.60.

(ii) In conjunction with the above financing, the Company issued 100,000 Corporate Finance Units to the underwriter. Each unit consists of one common share and one warrant. At December 31, 2007, \$125,000 has been included in share capital to reflect the value of these shares at the date of issue.

(iii) On February 22, 2007, the Company also issued 4,800,000 flow-through shares at a price of \$1.50 per share, for gross proceeds of \$7,200,000.

(iv) On December 13, 2007 in conjunction with a non-brokered private placement, the Company issued 237,500 flow-through shares at a price of \$0.80 per share, for gross proceeds of \$190,000. The shares issued are subject to a hold period which expires on April 20, 2008.

#### c) Flow-through share obligation information:

	<b>September 30, 2008</b>	December 31, 2007
Balance, beginning of period	\$ 3,498,025	\$ -
Flow-through share proceeds	-	7,390,000
Expenditures incurred	(3,498,025)	(3,891,975)
Balance, end of period	\$ -	\$ 3,498,025

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

**6. Share capital (continued)**  
**d) Stock options (continued)**

The Company has a stock option plan available to consultants, officers, directors, and employees 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 September 30, 2008, 2,830,000 common shares were reserved for issuance under the plan. Options granted under the plan vest upon granting and have a term of five years to expiry.

<u>Outstanding and exercisable</u>	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of period	5,855,000	\$ 1.23	3,355,000	\$ 1.42
Granted	-	\$ -	2,500,000	\$ 0.97
Expired/ surrendered	(3,025,000)	\$ 1.57	-	\$ -
Exercised	-	\$ -	-	\$ -
Balance, end of period	<u>2,830,000</u>	<u>\$ 0.88</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

<u>Expiry dates</u>	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Options</u>	<u>Price</u>	<u>Number of Options</u>	<u>Price</u>
December 23, 2008	465,000	0.45	465,000	\$ 0.45
January 26, 2009	90,000	0.50	90,000	\$ 0.50
April 1, 2009	75,000	0.45	75,000	\$ 0.45
November 16, 2009	100,000	1.50	525,000	\$ 1.50
December 23, 2009	175,000	1.60	800,000	\$ 1.60
February 11, 2010	-	-	800,000	\$ 1.85
September 15, 2010	100,000	1.35	100,000	\$ 1.35
January 5, 2011	125,000	1.95	150,000	\$ 1.95
June 30, 2011	-	-	350,000	\$ 1.40
January 9, 2012	-	-	800,000	\$ 1.30
June 26, 2012	<u>1,700,000</u>	<u>\$ 0.82</u>	<u>1,700,000</u>	<u>\$ 0.82</u>
	<u>2,830,000</u>	<u>\$ 0.88</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

On April 8, 2008 certain optionees surrendered for cancellation 2,987,500 stock options with an average exercise price of \$1.57 per share.

**September 30, 2008**

	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
Exercise Price					
\$0.25 - \$0.82	2,330,000	2.80	\$ 0.72	2,330,000	\$ 0.72
\$1.35 - \$1.95	<u>500,000</u>	<u>1.62</u>	<u>\$ 1.62</u>	<u>500,000</u>	<u>\$ 1.62</u>
	<u>2,830,000</u>	<u>2.59</u>	<u>\$ 0.88</u>	<u>2,830,000</u>	<u>\$ 0.88</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

### 6. Share capital (continued)

#### d) Stock options (continued)

##### December 31, 2007

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercisable Price</u>
\$0.45 - \$0.50	630,000	1.03`	\$ 0.46	630,000	\$ 0.46
\$0.82 - \$1.30	2,500,000	4.34`	\$ 0.97	2,500,000	\$ 0.97
\$1.35 - \$1.95	<u>2,725,000</u>	<u>2.28</u>	<u>\$ 1.64</u>	<u>2,725,000</u>	<u>\$ 1.64</u>
	<u>5,855,000</u>	<u>3.03</u>	<u>\$ 1.23</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

There were no options granted for the period ended September 30, 2008. The weighted average fair market value of options granted in the period ended December 31, 2007 was \$0.92 per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Risk-free interest rate	-	4.37%
Expected life of options	-	5 years
Volatility	-	163%-170.00%
Dividend yield rate	-	0%

#### e) Warrants:

Warrants outstanding are as follows:

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning of period	7,504,000	\$ 3,757,090	-	\$ -
Issued (i), (ii)	-	-	7,504,000	3,757,090
Exercised	-	-	-	-
Expired	<u>(7,504,000)</u>	<u>(3,757,090)</u>	-	-
Balance, end of period	<u>-</u>	<u>\$ -</u>	<u>7,504,000</u>	<u>\$ 3,757,090</u>

(i) In conjunction with a bought deal unit financing on February 22, 2007 the Company raised proceeds of \$15,500,000. Each unit is comprised of one common share and one-half warrant. One full warrant entitles the holder, on exercise to purchase one additional non-flow through share at a price of \$1.60 per share. The Company received approval from the TSX-V to extend the expiry date of the warrants from February 22, 2008 to May 22, 2008. The warrants expired unexercised on May 22, 2008.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

**6. Share capital** (continued)

**e) Warrants** (continued)

(ii) Concurrently with the issuance of the units, the Company issued 1,204,000 underwriter warrants which entitle the holder, on exercise, to purchase one common share at a price of \$1.60 on or before February 22, 2008. In addition, the Company issued 100,000 Corporate Finance Units to the underwriter. Each unit consists of one common share and one warrant. One warrant entitles the holder the right to acquire one common share at a price of \$1.60 on or before February 22, 2008. The underwriter warrants and corporate finance warrants expired unexercised on February 22, 2008

The weighted average fair market value of warrants granted in the period ended September 30, 2008 is Nil per warrant (2007 – \$0.50). The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<b>September 30, 2008</b>	December 31, 2007
Risk-free interest rate	-	4.11%
Expected life of options	-	1 year
Volatility	-	82%
Dividend yield rate	-	0%

**f) Contributed surplus:**

	<b>September 30, 2008</b>	December 31, 2007
Balance, beginning of year	<b>\$ 6,732,940</b>	\$ 4,474,570
Value attributed to stock options granted	-	2,258,370
Value of stock options exercised	-	-
Sidox license	<b>50,000</b>	-
Fair value of expired warrants	<b>3,757,090</b>	-
Balance, end of period	<b>\$ 10,540,030</b>	\$ 6,732,940

At September 30, 2008, \$Nil (2007 – \$406,640) of the value attributed to stock options granted in the year were capitalized to petroleum and natural gas properties.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

### 7. Related party transactions

During the period, the Company paid consulting fees to certain officers and directors as follows:

	<u>Nine months ended</u> <u>September 30, 2008</u>	Year ended December 31, 2007
Executive officer compensation	\$ 67,500	\$ 17,000
Director's fees	13,750	30,000
Royalty incentive program	-	10,510
	<u>\$ 81,250</u>	<u>\$ 57,510</u>

At September 30, 2008, \$Nil (December 31, 2007 – \$10,510) of the above amounts were included in payables and accruals.

During the period, \$5,075 (2007 - \$26,650) was paid to a law firm in which a Director of the Company is a partner. Of this amount, \$70 is included in payables and accruals at September 30, 2008. These costs are included in general and administrative expenses on the consolidated statements of operations and deficit.

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

### 8. Earnings (loss) per share

	<u>Three Months ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net earnings (loss)	<u>\$ 89,185</u>	<u>\$ 21,290</u>	<u>\$ (1,238,690)</u>	<u>\$ (1,748,870)</u>
Weighted average number of shares	<u>59,578,965</u>	<u>45,549,410</u>	<u>59,578,965</u>	<u>45,549,410</u>
Basic earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Net earnings (loss)	<u>\$ 89,185</u>	<u>\$ 21,290</u>	<u>\$ (1,238,690)</u>	<u>\$ (1,748,870)</u>
Weighted average number of shares	<u>59,578,965</u>	<u>45,549,410</u>	<u>59,578,965</u>	<u>45,549,410</u>
Dilutive effect of stock options	<u>-</u>	<u>276,575</u>	<u>-</u>	<u>276,575</u>
Dilutive weighted average number of shares	<u>59,578,965</u>	<u>49,825,986</u>	<u>59,578,965</u>	<u>49,825,986</u>
Diluted earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>

In calculating diluted common share amounts for the period ended September 30, 2008, the Company excluded 2,830,000 (2007 – 5,225,000) options and Nil (2007 – 7,504,000) warrants because the exercise price was greater than the average market price of its common shares during the year.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

### 9. Supplemental cash flow information

The components of the change in non-cash working capital is as follows:

	Three Months ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Receivables	\$ 466,055	\$ (1,405,100)	\$ 1,006,285	\$ (1,248,200)
Prepays	191,480	23,965	80,805	(141,615)
Payables and accruals	<u>815,860</u>	<u>771,240</u>	<u>(2,608,390)</u>	<u>309,530</u>
	<u>\$ 1,473,395</u>	<u>\$ (609,895)</u>	<u>\$ (1,521,300)</u>	<u>\$ (1,080,285)</u>
Operating activities	\$ 289,945	\$ (215,960)	\$ (422,000)	\$ (478,160)
Investing activities	1,183,450	(393,935)	(1,099,300)	(602,125)
Financing activities	-	-	-	-
	<u>\$ 1,473,395</u>	<u>\$ (609,895)</u>	<u>\$ (1,521,300)</u>	<u>\$ (1,080,285)</u>
Interest paid	\$ -	\$ 1,540	\$ 2,060	\$ 3,080

### 10. Commitments and contingencies

a) The Company has letters of credit for its share of refundable deposits on Northwest Territories Exploration Licenses. The letters of credit are secured by a total assignment of cash of \$2,267,175 (2007 – \$2,267,175). The Company is contingently liable under the letters of credit for \$2,267,175 (2007 - \$2,267,175). The deposits will be refunded by \$1 for every \$4 spent on qualified expenditures on each Exploration License. At September 30, 2008 the Company has met a certain portion of its work commitments on the exploration licenses which entitle it to a refund of qualified expenditures upon approval by the National Energy Board and Department of Indian Affairs

b) The Company is party to an agreement to lease its premises until December 31, 2011. 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:

2008	\$ 12,750
2009	\$ 51,000
2010	\$ 51,000
2011	\$ 51,000



# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(unaudited) – September 30, 2007

### 11. Segmented information

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

#### a) Earnings (Loss)

##### Canada

	Three Months ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Oil	\$ 331,330	\$ 240,030	\$ 1,026,850	\$ 568,520
Less: royalties	(75,840)	(53,110)	(200,785)	(116,960)
	255,490	186,920	826,065	451,560
Interest	79,070	310,510	383,210	800,685
Foreign exchange gain	11,940	-	20,915	-
	346,500	497,430	1,230,190	1,252,245
Expenses				
Field operating costs	76,380	90,260	287,065	362,600
Depletion, depreciation, and impairments	58,020	43,395	1,689,560	112,885
Accretion	3,800	3,330	12,875	14,085
Foreign exchange loss	-	111,670	-	111,670
General and administration	106,320	148,985	440,160	584,640
Non - recoverable Sidox costs	-	-	105,160	-
Stock based compensation	-	-	-	1,851,725
	244,520	397,640	2,534,820	3,037,605
Earnings (loss) before Income taxes	\$ 101,980	\$ 99,790	\$ (1,304,630)	\$ (1,785,360)
Future income tax recovery (Note 7)	-	10,000	-	(104,990)
Net earnings (loss)	\$ 101,980	\$ 89,790	\$ (1,304,630)	\$ (1,680,370)

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(unaudited) – September 30, 2007

### 11. Segmented information (continued)

#### United Kingdom

	Three Months ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Oil	\$ -	\$ -	\$ -	\$ -
Less: royalties	-	-	-	-
Interest	1,750	6,695	60,080	6,695
Foreign exchange gain	-	-	8,135	-
	1,750	6,695	68,215	6,695
Expenses				
Field operating costs	-	-	-	-
Depletion, depreciation, and impairments	-	-	-	-
Accretion	-	-	-	-
Foreign exchange loss	14,010	72,590	-	72,590
General and administration	535	2,605	2,275	2,605
Stock based compensation	-	-	-	-
	14,545	75,195	2,275	75,195
Earnings (loss) before Income taxes	\$ (12,795)	\$ (68,500)	\$ 65,940	\$ (68,500)
Future income tax recovery (Note 7)	-	-	-	-
Net earnings (loss)	\$ (12,795)	\$ (68,500)	\$ 65,940	\$ (68,500)

#### b) Property and equipment

<u>September 30, 2008</u>	<u>Canada</u>	<u>U.K.</u>	<u>Total</u>
Capital expenditures during the period	\$ 9,379,650	\$ 4,777,730	\$ 14,157,380
Property and equipment, net book value	\$ 23,084,055	\$ 6,891,275	\$ 29,975,330
<u>September 30, 2007</u>	<u>Canada</u>	<u>U.K.</u>	<u>Total</u>
Capital expenditures during the period			
Cash expenditures	\$ 1,049,705	\$ 1,024,340	\$ 2,074,045
Stock options costs	294,800	111,840	406,640
	\$ 1,344,505	\$ 1,136,180	\$ 2,480,685
Property and equipment, net book value	\$ 12,478,840	\$ 2,129,605	\$ 14,608,445

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## **International Frontier Resources Corporation**

### **Notes to the Consolidated Financial Statements**

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

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#### **12. Financial Instruments**

The Company is exposed to financial risk in a range of financial instruments including cash assets, trade accounts receivable, and trade accounts payable. 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. A majority of the Company's financial assets at the balance sheet date arise from crude oil sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. During the nine months ended September 30, 2008, there were no receivables written off and the carrying amount of accounts receivable represents the maximum exposure.

During the nine months ended September 30, 2008, there were no receivables written off and the carrying value of accounts receivable and deposits approximates their fair value due to the relatively short periods to maturity on these instruments. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

The Company assesses quarterly if there should be any impairment of the financial assets of the Corporation. During the nine month period ended September 30, 2008, an impairment of \$1,433,080 was booked as an impairment of oil and gas properties.

##### **b) 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 holds cash and cash equivalents on hand that are denominated in United States currency and is exposed to foreign currency fluctuations on its operations in the United Kingdom as these are denominated in British pounds. 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 September 30, 2008, the carrying amount of the Company's foreign currency denominated net monetary assets was approximately \$745,000. Assuming all other variables remain constant, a fluctuation of one cent in the exchange rate of the Canadian dollar to the British pound and the U.S. dollar would not result in a material change in income

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008 and 2007  
(Unaudited)

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### 12. Financial Instruments (continued)

#### c) 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 to the extent that the convertible debentures have a fixed interest rate. In addition, the Company is also exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow through share obligations from February 1 to December 31 of the each year. The Company currently 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 no material impact on the cash flow of the Company during the quarter ended September 30, 2008.

#### d) Liquidity Risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- 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 our existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

#### e) Capital Risk

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.