



International Frontier Resources Corporation

Financial Statements

December 31, 2012

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Independent Auditor's Report

**To the Shareholders of
International Frontier Resources Corporation**

We have audited the accompanying financial statements of International Frontier Resources Corporation, which comprise the balance sheets as at December 31, 2012 and December 31, 2011, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of International Frontier Resources Corporation as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Calgary, Alberta
April 18, 2013**

MacKay LLP

Chartered Accountants

International Frontier Resources Corporation

Balance Sheets

	December 31, 2012	December 31, 2011
Assets		
Current		
Cash and cash equivalents (Note 15)	\$ 3,456,380	\$ 4,037,930
Receivables	83,095	118,830
Prepays	14,045	21,635
Current portion of restricted cash on deposit	<u>-</u>	<u>374,305</u>
	3,553,520	4,552,700
Exploration and evaluation (Note 5)	9,374,950	9,814,875
Property and equipment (Note 6)	1,101,270	1,109,615
Deposits	<u>253,175</u>	<u>250,650</u>
	\$ 14,282,915	\$ 15,727,840
<hr/>		
Liabilities		
Current		
Payables and accruals (Note 7)	\$ 523,700	\$ 1,473,195
Current portion of decommissioning liabilities (Note 8)	<u>11,640</u>	<u>13,985</u>
	535,340	1,487,180
Decommissioning liabilities (Note 8)	<u>959,965</u>	<u>877,610</u>
	1,495,305	2,364,790
 Shareholders' Equity		
Share capital	42,064,435	42,064,435
Contributed surplus	10,956,715	10,956,715
Deficit	<u>(40,233,540)</u>	<u>(39,658,100)</u>
	12,787,610	13,363,050
	\$ 14,282,915	\$ 15,727,840

Commitments and contingencies (Note 14)

On behalf of the Board

(Signed) "Wm. Patrick Boswell" Director **(Signed) "Margaret Souleles"** Director

See accompanying notes to the financial statements.

International Frontier Resources Corporation
Statements of Operations and Comprehensive Loss

For the year ended December 31, 2012 2011

Revenue		
Oil	\$ 990,465	\$ 1,017,325
Less: Royalties	<u>(238,075)</u>	<u>(246,475)</u>
	752,390	770,850
Interest income	27,405	36,105
Foreign exchange gain (loss)	<u>(19,940)</u>	<u>28,430</u>
	<u>759,855</u>	<u>835,385</u>
Expenses		
Field operating costs	439,930	363,235
General and administration	479,070	541,070
Accretion (Note 8)	15,030	20,840
Site reclamation costs (Note 7)	233,945	-
Pre-license costs	-	13,340
Impairment of exploration and evaluation assets (Note 5)	-	307,155
Recovery of exploration and evaluation costs (Note 14)	-	(35,155)
Depletion, depreciation and impairments (Note 6)	167,320	201,050
Share based compensation (Note 10)	<u>-</u>	<u>97,190</u>
	<u>1,335,295</u>	<u>1,508,725</u>
Net loss and comprehensive loss for the year	\$ <u>(575,440)</u>	\$ <u>(673,340)</u>

Net loss per share (Note 12)		
Basic and diluted	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>

See accompanying notes to the financial statements.

International Frontier Resources Corporation
Statements of Changes in Equity
December 31, 2012

As at:	December 31, 2012		December 31, 2011	
	Number	Amount	Number	Amount
Common shares				
Share capital, beginning and end of period	<u>59,578,965</u>	<u>\$ 42,064,435</u>	<u>59,578,965</u>	<u>\$ 42,064,435</u>
Contributed surplus				
Balance, beginning of period	-	\$ 10,956,715	-	\$ 10,859,525
Share based compensation expense	-	-	-	97,190
Contributed surplus, end of period	<u>-</u>	<u>\$ 10,956,715</u>	<u>-</u>	<u>\$ 10,956,715</u>
Deficit				
Balance beginning of year	-	\$ (39,658,100)	-	\$ (38,984,760)
Net loss for the year	-	(575,440)	-	(673,340)
Deficit end of year	<u>-</u>	<u>\$ (40,233,540)</u>	<u>-</u>	<u>\$ (39,658,100)</u>

See accompanying notes to the financial statements.

International Frontier Resources Corporation

Statements of Cash Flows

For the year ended December 31,

2012

2011

Operating

Net loss from continuing operations	\$ (575,440)	\$ (673,340)
Non Cash Items:		
Impairment of exploration and evaluation costs	-	307,155
Depletion, depreciation and impairments	167,320	201,050
Accretion	15,030	20,840
Share based compensation	-	97,190
Decommissioning liabilities settled (Note 8)	<u>(12,075)</u>	<u>(64,100)</u>
	(405,165)	(111,205)
Change in non-cash operating working capital (Note 15)	<u>(97,700)</u>	<u>(118,040)</u>
	<u>(502,885)</u>	<u>(229,245)</u>

Investing

Additions to exploration and evaluation assets	(167,595)	(3,630,940)
Adjustment to purchase costs	607,520	-
Additions to property and equipment	(81,920)	(76,610)
Decrease in restricted cash on deposit	374,305	266,365
Change in non-cash investing working capital (Note 15)	<u>(810,995)</u>	<u>895,170</u>
	<u>(78,685)</u>	<u>(2,546,015)</u>

Net decrease in cash and cash equivalents (581,550) (2,775,260)

Cash and cash equivalents (Note 15)

Beginning of year	<u>4,037,930</u>	<u>6,813,190</u>
End of year	\$ <u>3,456,380</u>	\$ <u>4,037,930</u>

See accompanying notes to the financial statements.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

1. Nature of operations

The Company is engaged in the exploration for and development of oil and natural gas reserves. These activities are conducted in the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada, south east Alberta, Canada, and north-west Montana in the United States. These financial statements are denoted in Canadian dollars.

The financial statements include the accounts of the Company and its 50% jointly controlled interest in Sidox Chemicals Canada Ltd. ("Sidox") accounted for using the equity method of accounting.

2. Basis of preparation and statement of compliance

The financial statements (the "financial statements") are presented under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and were prepared using accounting policies consistent with IFRS. A summary of the Company's significant accounting policies under IFRS is presented in Note 3.

These financial statements were approved and signed by the Chief Executive Officer and the Chief Financial Officer on April 18, 2013, having been duly authorized to do so by the Board of Directors.

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. Summary of significant accounting policies

Cash and cash equivalents

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

Investments in Associates

The Company has a 50% investment in Sidox Chemicals Canada Ltd. (Sidox.). This investment is accounted for using the equity method of accounting. The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company's proportionate share of the profit or loss and any other changes in the associates' net assets such as dividends.

If the Company's share of the associate's losses equals or exceeds its investment in the associate, recognition of further losses is discontinued. After the Company's interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company will resume recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. At each balance sheet date, the Company assesses its investments in associates for indicators of impairment.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

Significant Accounting Judgments, Estimates and Assumptions

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

Specifically, amounts recorded for depletion, depreciation and amortization expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for intangible assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.

The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

The Company uses the Black-Scholes option pricing model in determining share based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected option life, forfeiture rate, and expected share price volatility. Consequently, the actual share based compensation expense may vary from the amount estimated.

Foreign Currency Translation

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Statements of Operations and Comprehensive Loss.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue associated with the production and sales of crude oil owned by the Company are recognized when title passes from the Company to its customer.

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

Transportation costs

The costs associated with the transportation of crude oil are recognized as part of field operating costs on the Statements of Operations and Comprehensive Loss en the product is delivered and the services provided.

Exploration and Evaluation Assets and Property, Plant and Equipment

i) Cost

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

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

ii) Exploration and evaluation costs

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

iii) Petroleum and natural gas properties

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

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

overhead expenses directly related to development activities and an estimate of costs to decommission the asset.

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

Oil and gas reserves are evaluated by independent qualified reserves evaluators. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depreciation, depletion and amortization expense, in addition to determining possible write downs of property, plant and equipment. Costs with respect to the Company's Battery at Alderson are amortized on a straight-line basis over the useful life of the related assets.

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

iv) Office furniture and equipment

Office furniture and equipment is carried at cost and depreciated on a straight-line basis over the assets' estimated useful lives at a rate of 20% to 30% per annum.

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

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

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

Impairment losses are recognized in depletion, depreciation and impairments in the statement of operations and comprehensive loss.

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Company estimates the asset or CGU's recoverable amount. An

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined net of depletion, had no impairment loss been previously recognized for the asset or CGU. Such reversal is recognized in the statement of operations and comprehensive loss.

Joint Arrangements

Substantially all of the Company's exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Decommissioning liabilities

The Company recognizes the fair value of a decommissioning liability and a corresponding increase in the carrying value of the related long-lived asset in the period in which it is constructed or acquired. The fair value of the obligation is management's best estimate of the cost to retire the asset based on current legislation and industry practice, discounted to its present value using a risk-free rate. The increase in the carrying value of the asset is amortized on a unit-of-production basis consistent with the method used to record depletion on the Company's petroleum and natural gas properties. The liability is subsequently adjusted for the passage of time, which is recognized as accretion in the statement of operations and comprehensive loss.

Inherent in the calculation of the decommissioning liability are numerous assumptions and judgment including the ultimate settlement amounts, future third party pricing, inflation factors, risk free discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. The liability is periodically adjusted for revisions to these assumptions. Actual costs incurred upon settlement of the obligations are charged against the liability.

Earnings Per Share Amounts

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

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislations. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized in payables and accruals on the balance sheet. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

Income Taxes

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

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

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

Share-Based Payments

The Company has a stock option plan as described in Note 10. The Company uses the fair value method of accounting for stock options granted to employees and directors. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized in the statement of operations at the date of grant as the options vest immediately. Compensation expense is adjusted for the estimated amount of forfeitures at the time compensation expense is recognized.

Financial Instruments

Financial instruments must initially be recognized at fair value on the balance sheet based on their initial classification. Each financial instrument is classified as one of the following categories: financial assets and financial liabilities measured at fair value through profit or loss, receivables, held to maturity investments, available for-sale financial assets, or other financial liabilities.

Financial assets include cash and cash equivalents, receivables, deposits and restricted cash on deposit. Financial liabilities include payables and accruals.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated as effective hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. The Company does not have any hedging instruments.

- *Financial assets at fair value through profit or loss* – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash and cash equivalents and restricted cash fall into this category of financial instruments.
- *Loans and receivables* – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's receivables and deposits fall into this category of financial instruments.
- *Held-to-maturity investments* – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- *Available-for-sale financial assets* – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date that the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

3. Summary of significant accounting policies (continued)

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- *Financial liabilities at fair value through profit or loss* - Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.
- *Other financial liabilities* – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's trade payables and accruals and fall into this category of financial instruments

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

4. Recent accounting pronouncements

i) Presentation of Financial Statements

In June 2011, the International Accounting Standards Board ("IASB") issued IAS 1, "Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements." The amendments stipulate the presentation of net earnings and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. The standard is required to be adopted for periods beginning on or after July 1, 2012. Adoption of this standard is not expected to have a significant impact on the Financial Statements.

ii) Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation" to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IFRS 7 are effective for the Company on January 1, 2013 with required retrospective application and early adoption permitted. Amendments to IAS 32 are effective for the Company on January 1, 2014 with required retrospective application and early adoption permitted. The Company intends to retrospectively adopt the IFRS 7 amendments on January 1, 2013 and the IAS 32 amendments on January 1, 2014. The adoption of these amended standards is not expected to have a material impact on the Company's financial statements.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

4. Recent accounting pronouncements (continued)

iii) Financial Instruments: Recognition and Measurement

In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 *Financial Instruments*. It contained requirements for the classification and measurement of financial assets, and was updated in October 2010 to incorporate financial liabilities. The standard is applicable for annual periods starting on or after January 1, 2015. Adoption of this standard is not expected to have a material impact on the Company's financial statements.

iv) Reporting Entity

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statement*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, and amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangements by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation accounting to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier application permitted if all five standards are collectively adopted. The company is currently assessing the impact of these standards.

v) Fair Value Measurements

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*, which establishes a single source of guidance for all fair value measurements, clarifies the definition of fair value, and enhances the disclosures on fair value measurement. Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early application permitted. The company does not anticipate significant changes to its fair value measurements and related disclosures as a result of this standard.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

5. Exploration and evaluation assets

As at December 31, 2012, exploration and evaluation assets consist of total costs incurred less impairments in the the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada of \$6,664,250 (December 31, 2011 - \$6,561,000), costs incurred in Southern Alberta, Canada of \$62,100 (December 31, 2011 - \$60,505) and costs incurred in, north-west Montana, USA of \$2,648,600 (December 31, 2011 - \$3,193,370).

Cost	Canada	USA	Total
Balance at December 31, 2010	\$ 22,273,490	\$ -	\$ 22,273,490
Additions	437,570	3,193,370	3,630,940
Balance, as at December 31, 2011	\$ 22,711,060	\$ 3,193,370	\$ 25,904,430
Additions	104,595	63,000	167,595
Adjustment to Montana purchase cost	-	(607,520)	(607,520)
Balance at December 31, 2012	\$ 22,815,655	\$ 2,648,850	\$ 25,464,505

Accumulated Impairment	Canada	USA	Total
Balance, as at December 31, 2010	\$ (15,782,400)	\$ -	\$ (15,782,400)
Additions	(307,155)	-	(307,155)
Balance, as at December 31, 2011	\$ (16,089,555)	\$ -	\$ (16,089,555)
Additions	-	-	-
Balance at December 31, 2012	\$ (16,089,555)	\$ -	\$ (16,089,555)

Carrying Value			
Balance at December 31, 2011	\$ 6,621,505	\$ 3,193,370	\$ 9,814,875
Balance at December 31, 2012	\$ 6,726,100	\$ 2,648,850	\$ 9,374,950

At December 31, 2012, the Company booked an impairment charge of \$Nil (December 31, 2011 - \$307,155) with respect to its exploration and evaluation assets in the Northwest Territories, Canada.

During the year the Company reviewed titles with respect to sale and purchase agreements to purchase mineral titles in Glacier County, NW Montana USA and as a result of differences in conveyance the purchase price was reduced by \$607,520.

Final consideration to purchase the Montana Mineral Titles was paid and the deal was closed in January 2013. An accrual for \$140,070 is included in accounts payable and accrued liabilities at December 31, 2012 for the final consideration.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

6. Property, plant and equipment

Cost	Petroleum and natural gas properties	Office furniture and equipment	Carrying Amount
Balance at December 31, 2010	\$ 3,552,320	\$ 84,980	\$ 3,637,300
Additions	76,620		76,620
Change in decommissioning liability	75,900	-	75,900
Balance, as at December 31, 2011	\$ 3,704,840	\$ 84,980	\$ 3,789,820
Additions	81,920	-	81,920
Change in decommissioning liability	77,055	-	77,055
Balance at December 31, 2012	\$ 3,863,815	\$ 84,980	\$ 3,948,795

Depletion and depreciation

Balance at December 31, 2010	\$ (2,405,225)	\$ (73,930)	\$ (2,479,155)
Depletion and depreciation	(198,720)	(2,330)	(201,050)
Balance, as at December 31, 2011	\$ (2,603,945)	\$ (76,260)	\$ (2,680,205)
Depletion and depreciation	(165,545)	(1,775)	(167,320)
Balance at December 31, 2012	\$ (2,769,490)	\$ (78,035)	\$ (2,847,525)

Carrying Value

Balance, as at December 31, 2011	\$ 1,100,895	\$ 8,720	\$ 1,109,615
Balance at December 31, 2012	\$ 1,094,325	\$ 6,945	\$ 1,101,270

In 2012, a \$Nil (2011 - \$39,810) impairment of petroleum and natural gas assets in Canada has been recorded as part of depletion to reflect the excess carrying amount of assets over fair value of future reserves.

The prices used in the ceiling test evaluation of the Company's petroleum properties at December 31, 2012 were as follows:

	2013	2014	2015	2016	2017	2018	Thereafter
Alberta Bow River Hardisty Crude Oil (\$C/Bbl)	\$75.30	\$77.80	\$79.60	\$81.30	\$82.90	\$84.50	2.0%

7. Payables and accruals

	December 31, 2012	December 31, 2011
Trade payables	\$ 99,685	\$ 122,980
Accrual for letters of credit	-	339,150
Accrued liabilities	50,000	50,000
Accrued exploration and evaluation costs (Note 5)	140,070	961,065
Accrued site reclamation costs	233,945	-
	\$ 523,700	\$ 1,473,195

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

8. Decommissioning Liabilities

The total future decommissioning liabilities result from the Company's net ownership interest in wells and facilities. Management estimates the total undiscounted amount of future cash flows required to reclaim and abandon wells and facilities as at December 31, 2012 is \$940,000 (December 31, 2011 - \$865,000) with abandonment dates ranging from 1 to 8 years (December 31, 2011 - 1 to 8 years). The liability was determined using an average risk-free rate of 1.58% (December 31, 2011 - 1.60%) and an inflation rate of 2% (December 31, 2011 - 2%).

The Company's decommissioning liabilities changed as follows:

	<u>December 31,</u> <u>2012</u>	December 31, <u>2011</u>
Balance, beginning of period	\$ <u>891,595</u>	\$ 858,955
Adjustments for abandonment dates and estimated costs	<u>77,055</u>	75,900
Liabilities settled	<u>(12,075)</u>	(64,100)
Change in discount rate	-	-
Accretion expense	<u>15,030</u>	<u>20,840</u>
Balance, end of period	\$ <u>971,605</u>	\$ 891,595
Current portion	<u>(11,640)</u>	<u>(13,985)</u>
Long term portion	\$ <u>959,965</u>	\$ <u>877,610</u>

9. Income taxes

- a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 25.00% (2011- 26.50%) to loss before income taxes. This difference results from the following items:

	<u>2012</u>	<u>2011</u>
Loss before income taxes from continuing operations	\$ <u>(575,440)</u>	\$ (673,340)
Expected tax recovery of combined federal and provincial statutory rates	<u>(144,000)</u>	(178,000)
Increase (decrease) resulting from:		
Rate differential	-	8,000
Share based compensation	-	26,000
Other	<u>500</u>	<u>4,000</u>
	<u>(143,500)</u>	(140,000)
Expiry of losses	-	66,000
Unrecognized deferred tax asset	<u>143,500</u>	<u>74,000</u>
	\$ <u>-</u>	\$ <u>-</u>

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

9. Income taxes (continued)

b) Deferred income taxes consist of the following temporary differences and other items

	<u>2012</u>	<u>2011</u>
Excess of tax pools over carrying value of property and equipment	\$ 585,000	\$ 594,000
Asset retirement obligations	240,000	223,000
Share issue costs	-	-
Non-capital loss carry-forwards	1,408,500	1,282,000
Deposit forfeit payable	-	(9,000)
	<u>2,223,500</u>	<u>2,090,000</u>
Unrecognized deferred tax asset	<u>(2,223,500)</u>	<u>(2,090,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately \$5,537,000 (2011 - \$5,129,000) in Canada. The related benefit of these losses in Canada has been recognized in the financial statements to reduce future income taxes. Unless sufficient taxable income is earned, these losses will expire as follows:

	<u>Non-capital</u>
2013	\$ 508,000
2014	499,000
2026	253,000
2027	620,000
2028	431,000
2029	942,000
2030	1,253,000
2031	623,000
2031	<u>505,000</u>
	<u>\$ 5,634,000</u>

The Company has other losses of \$12,100,000 to use against future capital gains from potential sale of properties.

10. Share Capital

a) Authorized:

Unlimited common shares
Unlimited preferred shares

b) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2012, 5,181,500 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.

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

10. Share Capital (continued)

Outstanding and exercisable

	December 31, 2012		December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	5,531,500	\$ 0.15	4,206,500	\$ 0.21
Granted	-	\$ -	1,450,000	\$ 0.11
Expired	(350,000)	\$ 0.82	(125,000)	\$ 1.95
Exercised	-	\$ -	-	\$ -
Balance, end of period	<u>5,181,500</u>	<u>\$ 0.10</u>	<u>5,531,500</u>	<u>\$ 0.15</u>

December 31, 2011

Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	
\$0.10	4,881,500	2.45	\$ 0.10	4,881,500	\$ 0.10	
\$0.13	300,000	4.34	\$ 0.13	300,000	\$ 0.13	
	<u>5,181,500</u>	<u>2.53</u>	<u>\$ 0.10</u>	<u>5,181,500</u>	<u>\$ 0.10</u>	

There were no options granted in 2012. In 2011, a total of 1,450,000 options were granted. Total compensation expense recorded in respect of these options was \$97,190. The weighted average fair market value of options granted in 2011 was \$0.07 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:

	December 31, 2011
Risk-free interest rate	1.96%
Forfeiture rate	3.00%
Expected life of options	5 years
Volatility	79%
Dividend yield rate	0%

11. Capital Disclosures

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2012, the Company's capital as defined above was as follows:

	2012	2011
Working capital balances included:		
Cash and cash equivalents	\$ 3,456,380	\$ 4,037,930
Restricted cash	-	374,305
Payables and accruals	(523,705)	(1,473,195)
Current portion of asset retirement obligations	(11,635)	(13,985)
	<u>\$ 2,921,040</u>	<u>\$ 2,925,055</u>

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

11. Capital Disclosures (continued)

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

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

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

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

12. Per share

	<u>2012</u>	<u>2011</u>
Net loss	\$ (575,440)	\$ (673,340)
Weighted average number of shares	<u>59,578,965</u>	<u>59,578,965</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

In calculating diluted common share amounts for the year ended December 31, 2012, the Company excluded 5,181,500 (2011 – 650,000) options, 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 Financial Statements

December 31, 2012

13. Related party transactions

During 2012, the Company paid compensation to key executives as follows:

	<u>2012</u>	<u>2011</u>
Executive officers – salaries	\$ 131,250	\$ 124,880
Executive officers and directors – consulting fees	97,270	88,870
Royalty incentive program	39,500	39,690
Share based compensation	-	97,190
	<u>\$ 268,020</u>	<u>\$ 350,630</u>

At December 31, 2012, \$20,875 (December 31, 2011 – \$4,025) of the above amounts were included in payables and accruals.

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.

14. 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 \$Nil (December 31, 2011 – \$374,305). The Company is contingently liable under the letters of credit for \$Nil (December 31, 2011 - \$374,305).

At December 31, 2011 the Company set up a provision for EL-443 in the amount \$305,555. This license expired in May 2012 and the deposit was forfeited.

At December 31, 2009 the Company set up a provision for EL-445 in the amount of \$68,750 and wrote these costs off as impairment costs in that year. During the year ended December 31, 2012 the Company received notifications that \$35,155 of the total deposit have qualified as eligible expenditures, therefore the Company paid the remaining amount of the deposit of \$33,595 and the license was forfeited in May 2012.

- b) The Company is party to an agreement to lease its premises until December 31, 2014. The annual rent of premises consists of a minimum rent plus occupancy costs. Minimum rent payable for premises until the end of the lease is:

2013	\$43,400
2014	\$43,400

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

14. Commitments and contingencies (continued)

- c) The Company has established a Royalty Incentive Agreement for officers who are also Directors and consultants. Under the plan, the compensation committee issues units and pays royalties on an annual basis to employees, consultants and directors. The units entitle the holder to receive an annual payment based on 2% of the Company's annual gross oil and gas production revenue, net of transportation and processing fees from licenses and lands owned by the Company. Under the terms of the agreement, once the Company has recovered payout of 100% of its cumulative annual capital expenditures from licenses and lands owned by the Company, the payment to employees, consultants and directors is based on 4% of the Company's annual production revenue less transportation and processing fees. At December 31, 2012, payout of 100% of cumulative annual capital expenditures had been reached on the Alderson property as a result costs of \$39,500 (2011 - \$39,690) was booked with respect to this plan.

15. Supplemental cash flow information

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

	<u>2012</u>	<u>2011</u>
Receivables	\$ 35,735	\$ (7,820)
Prepays and deposits	5,065	(80,635)
Payables and accruals	<u>(949,495)</u>	<u>865,585</u>
	<u>\$ (908,695)</u>	<u>\$ 777,130</u>
Operating activities	\$ (97,700)	\$ (118,040)
Investing activities	(810,995)	895,170
Financing activities	<u>-</u>	<u>-</u>
	<u>\$ (908,695)</u>	<u>\$ 777,130</u>
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

Cash and cash equivalents are comprised of:

Cash	\$ 1,225,850	\$ 342,855
Cash held in trust	230,530	1,178,400
Short term bankers' acceptances (bearing interest rates ranging from 1.05% - 1.15% (2011:1.00% - 1.15%))	<u>2,000,000</u>	<u>2,516,675</u>
	<u>\$ 3,456,380</u>	<u>\$ 4,037,930</u>

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

16. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash, 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 portion 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.

At December 31, 2012, substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its oil through one marketer the increased risk arising from exposure to one entity is mitigated by the fact that oil production is not a significant part of the Company's business at this time as the Company is engaged primarily in the exploration for and development of petroleum and natural gas reserves.

The following table presents the aging of the Company's accounts receivable at December 31, 2012:

Total receivables:	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 83,095	\$ 81,865	\$ 1,230	\$ -	\$ -

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During 2012, there was no allowance for doubtful accounts recorded as all amounts outstanding at December 31, 2012 are deemed collectible.

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 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. At December 31, 2012, the Company's allowance for doubtful accounts balance was \$Nil (2011 – \$Nil).

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

16. Financial Instruments (continued)

b) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2012, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate.

c) Foreign currency risk

The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates, primarily between Canadian and U.S. dollars. The Corporation does not utilize any foreign currency based derivatives. In order to manage this risk and to defer the realization of any resulting currency loss from converting Canadian dollars to US dollars, the Corporation retains cash balances in both US and Canadian dollars.

The Corporation regularly analyzes foreign currency risk between Canadian dollars and US dollars by calculating the effect of percent changes in the foreign currency exchange rates against period end cash, cash equivalents. For example, applying a 1% plus or minus change in the period end conversion rate (1.005) of Canadian to US dollars against the Corporation's Canadian denominated cash, cash equivalents \$1,076,195 at December 31, 2012 would have affected the value of such balances by approximately \$21,795. At December 31, 2012, substantially all of the Corporation's business operations are conducted in either US dollars or Canadian dollars and there are no significant outstanding foreign currency accounts receivable or accounts payable balances.

d) Liquidity Risk

Liquidity risk includes the risk that:

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

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

International Frontier Resources Corporation

Notes to the Financial Statements

December 31, 2012

16. Financial Instruments (continued)

e) Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, trade accounts receivable, restricted cash, deposits and trade accounts payable. The fair values of trade accounts receivable and trade accounts payable approximate their carrying amounts due to their short terms to maturity. The restricted cash balances are equal to their fair values. The Company classifies the fair value of financial instruments at fair value through profit or loss according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

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

At December 31, 2012 and 2011 cash and cash equivalents and restricted cash have been classified as Level 1.