

International Frontier Resources Corporation
Consolidated Financial Statements

December 31, 2003

Grant Thornton 

Contents

	<u>Page</u>
Auditors' Report	1
Consolidated Statements of Loss and Deficit	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-19

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Shareholders of
International Frontier Resources Corporation

We have audited the consolidated balance sheets of **International Frontier Resources Corporation** as at December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Calgary, Alberta
April 30, 2004, except for Note 16 b),
which is at May 4, 2004 and Note 16 c)
which is at May 17, 2004

Chartered Accountants

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International Frontier Resources Corporation

Consolidated Statements of Loss and Deficit

Years Ended December 31 2003 2002

Revenue		
Interest	\$ <u>7,663</u>	\$ <u>11,663</u>
Expenses		
Depreciation	4,748	158,362
General and administration	295,984	82,715
Interest and bank charges	1,878	367
Stock based compensation	735,135	-
Professional fees	<u>55,334</u>	<u>47,704</u>
	<u>1,093,079</u>	<u>289,148</u>
Loss before income taxes	(1,085,416)	(277,485)
Future income taxes recovered	<u>(122,246)</u>	<u>(106,784)</u>
Net loss	\$ <u>(963,170)</u>	\$ <u>(170,701)</u>

Deficit, beginning of year	\$ (276,342)	\$ (105,641)
Net loss	<u>(963,170)</u>	<u>(170,701)</u>
Deficit, end of year	\$ <u>(1,239,512)</u>	\$ <u>(276,342)</u>
Loss per share (Note 11)		
Basic	\$ <u>(0.10)</u>	\$ <u>(0.03)</u>
Diluted	\$ <u>(0.10)</u>	\$ <u>(0.03)</u>

See accompanying notes to the consolidated financial statements

International Frontier Resources Corporation

Consolidated Balance Sheets

December 31 2003 2002

Assets

Current

Cash and cash equivalents	\$ 1,027,864	\$ 50,411
Receivables	488,312	14,929
Prepays	<u>11,859</u>	<u>6,199</u>
	1,528,035	71,539

Restricted cash (Notes 5 and 13)	292,426	292,426
Property and equipment (Note 6)	1,753,034	1,862,458
Investment (Note 7)	<u>3,675</u>	<u>3,675</u>
	\$ 3,577,170	\$ 2,230,098

Liabilities

Current

Payables and accruals	\$ 158,548	\$ 133,867
Future income taxes (Note 9)	154,891	149,414
Convertible debentures (Note 8)	<u>99,217</u>	<u>364,823</u>
	412,656	648,104

Shareholders' Equity

Share capital (Note 10)	3,743,098	1,823,159
Contributed surplus	660,135	-
Equity component of convertible debenture	783	35,177
Warrants	10	-
Deficit	<u>(1,239,512)</u>	<u>(276,342)</u>
	3,164,514	1,581,994
	\$ 3,577,170	\$ 2,230,098

Contingent liabilities and commitments (Notes 13 and 15)

Subsequent events (Note 16)

On behalf of the Board

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

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Cash Flows

Years Ended December 31

2003

2002

Operating		
Net loss	\$ (963,170)	\$ (170,701)
Depreciation	4,748	158,362
Future income taxes recovered	(122,246)	(106,784)
Stock based compensation	<u>735,135</u>	<u>-</u>
	(345,533)	(119,123)
Change in non-cash operating working capital	<u>(106,578)</u>	<u>11,916</u>
	<u>(452,111)</u>	<u>(107,207)</u>
Investing		
Additions to property and equipment	(190,965)	(507,798)
Proceeds from disposition of property and equipment	<u>309,843</u>	<u>-</u>
	118,878	(507,798)
Change in non-cash investing working capital	<u>(378,829)</u>	<u>(16,850)</u>
	<u>(259,951)</u>	<u>(524,648)</u>
Financing		
Issue of share capital, net	1,672,662	-
Convertible debentures	-	(25,000)
Change in non-cash financing working capital	<u>16,853</u>	<u>(500)</u>
	<u>1,689,515</u>	<u>(25,500)</u>
Net change in cash and cash equivalents	977,453	(657,355)
Cash and cash equivalents,		
Beginning of year	<u>342,837</u>	<u>1,000,192</u>
End of year (Note 14)	<u>\$ 1,320,290</u>	<u>\$ 342,837</u>

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

1. Nature of operations

The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves. These activities are conducted in one cost centre, being Canada. To date the Company has earned no revenue from these operations and is considered to be in the development stage.

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

2. Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. The most significant estimate is related to the recoverability of petroleum and natural gas properties. The amounts recorded relating to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions. Actual results may differ from estimates as confirming events occur.

Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both successful and unsuccessful wells and overhead charges directly related to exploration activities. Proceeds from the sale of oil and gas properties will be applied against the capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment will be provided upon commencement of commercial production using the unit-of-production method based upon estimated proved petroleum and natural gas reserves.

Costs incurred on unproven properties and properties in the development stage are reviewed periodically to ascertain whether impairment has occurred. If impairment occurs, the costs will be written down to their estimated net realizable value.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

2. Summary of significant accounting policies (Continued)

The carrying value of the Company's petroleum and natural gas properties will be compared annually to an estimate of future net cash flows from the production of proved reserves using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

Future site restoration and abandonment costs

Estimated costs of future site restoration and abandonments, net of recoveries, will be provided for over the life of proved reserves on a unit-of-production basis upon commercial production. An annual provision will be recorded as additional depletion and depreciation. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The accumulated provision will be reflected as a non-current liability and actual expenditures will be charged against the accumulated provision when incurred.

Joint venture operations

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.

Flow-through common shares

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 income tax legislation. The estimated tax benefits transferred to shareholders upon renouncement are recorded as an increase to future income taxes and a reduction to share capital.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less and restricted cash. Bank borrowings are considered to be financing activities.

Temporary investments

Temporary investments are comprised of term deposits, investment certificates and shares in marketable securities and are valued at the lower of cost and quoted market value.

Portfolio investment

Portfolio investments are recorded at cost and are written down to market value when the decline in market value is other than temporary.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

2. Summary of significant accounting policies (Continued)

Depreciation

Depreciation of office furniture and equipment is provided on a diminishing balance basis over the estimated useful lives of those assets at rates ranging from 20% to 30%.

Option - Sidox

Included in property and equipment is the cost of securing an option to acquire an exclusive licensing agreement for the Sidox product in Canada referred to in Note 4. The option is exercisable by the Company after one year of field testing Sidox and the payment of \$100,000 to the patent owner of Sidox. If exercised, the agreement covering an exclusive license for Canada will have a ten year term and costs related thereto will be amortized over that period.

Income taxes

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary differences arising from the difference between the tax basis of an asset and liability and its carrying value using tax rates anticipated to apply in the periods when the temporary differences are expected to reverse.

Per share amounts

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 rate for the period.

Financial instruments

The Company has estimated the fair value of its financial instruments, which include cash and temporary investments, receivables, payables and accruals, and convertible debentures. The Company has used valuation methodologies and market information available as at year end to determine fair value. Unless otherwise disclosed, there are no significant differences between the carrying value of these financial instruments and their estimated fair value.

Stock-based compensation

The Company grants stock options to its directors, officers and employees upon employment and periodically during the period of employment.

The Company uses the fair-value method of accounting for stock options granted to employees and directors after January 1, 2003. Compensation costs are recognized over the vesting period. Fair values are determined using the Black-Scholes option pricing model. The Company used the intrinsic value method of accounting for stock options granted to employees prior to January 1, 2003.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

3. Change in accounting policy

During the fourth quarter of 2003, the Company has early adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA"), as outlined in CICA Handbook section 3870, "Stock-based Compensation and Other Stock-based Payments". The new section requires the use of the fair-value method of accounting for the stock options granted to employees and directors. As allowed by section 3870, this policy has been adopted prospectively, meaning all prior years have not been restated. The Company records a stock based compensation expense in the consolidated statement of loss and deficit for all options granted on or after January 1, 2003, with a corresponding increase to contributed surplus. Compensation expense for options granted during 2003 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. The Company recognized \$735,135 of compensation expense for options granted during 2003.

Effective January 1, 2002, the Company adopted the recommendations of the CICA, with respect to the accounting for stock-based compensation. The Company adopted the policy prospectively, without restating the financial statements of prior periods. The CICA Handbook section 3870, stock-based compensation, established financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. In 2002, the Company elected to follow the intrinsic value method of accounting for stock-based compensation arrangements. No stock options were granted on or subsequent to the effective date of adoption, as such, the new recommendations had no effect on the comparative year's deficit, liabilities, or future income taxes.

4. Business combination

In June 2003, the Company acquired, from a related company, all the issued and outstanding shares of Sidox Chemicals Canada Ltd. ("Sidox Canada"). Sidox Canada holds an option to acquire an exclusive licensing agreement to the patented technology Sidox in Canada. The patent owner of Sidox, has the right to acquire 50% of the common shares of Sidox Canada at cost, for a period of one year from the date of field testing of Sidox. The acquisition has been accounted for by the purchase method of accounting and the consolidated financial statements include the results of operations from date of acquisition. The consideration was measured based on the net assets acquired as follows:

Net assets acquired	
Property and equipment	\$ 14,201
Payables	<u>(14,191)</u>
	\$ <u>10</u>
Consideration	
2,000,000 performance warrants (see Note 10 d)iii)	\$ <u>10</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

5. Restricted cash

As at December 31, 2003, the Company has provided an assignment of cash totalling \$192,352 (2002 - \$192,352) and \$41,500 (2002 - \$41,500) as security on the irrevocable standby letters of credit against refundable deposits on Northwest Territories Exploration License No. 397 and No. 416 respectively (see Note 12). Subsequent to December 31, 2003, the Company fulfilled work commitments relating to Exploration License No. 397 resulting in amounts of \$189,000 becoming recoverable.

The Company has an outstanding letter of credit on Northwest Territories Exploration License No. 391 for delay rentals. As at December 31, 2003, the amount of restricted cash is \$58,574 (2002 - \$58,574) and will be refunded by \$1 for every \$1 spent on allowable expenses incurred.

6. Property and equipment

2003

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 1,875,767	\$ 156,166	\$ 1,719,601
Office furniture and equipment	54,606	35,374	19,232
Option	<u>14,201</u>	<u>-</u>	<u>14,201</u>
	<u>\$ 1,944,574</u>	<u>\$ 191,540</u>	<u>\$ 1,753,034</u>

2002

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 2,011,913	\$ 156,166	\$ 1,855,747
Office furniture and equipment	<u>37,339</u>	<u>30,628</u>	<u>6,711</u>
	<u>\$ 2,049,252</u>	<u>\$ 186,794</u>	<u>\$ 1,862,458</u>

The Company has financed a portion of its exploration and development activities from the proceeds of flow-through share issues. As a result, petroleum and natural gas properties with a cost of \$908,993 (2002 - \$585,643) have no cost basis for income tax purposes.

During the year, \$60,987 (2002 - \$56,247) of overhead expenses directly related to exploration and development activities were capitalized. Also during the year, \$29,666 (2002 - \$32,500) of interest expense was capitalized.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

7. Investment

The market value of the portfolio investment as at December 31, 2003 is \$5,425 (2002 - \$1,575).

8. Convertible debentures

In 2002, the Company redeemed one of the seventeen units for \$25,000.

In 2003, debenture holders converted twelve \$25,000 units into 750,000 common shares. Each unit consisting of one 8% convertible debenture, 1/20th of a 2% gross overriding royalty over the Company's Northwest Territories acreage and 25,000 Series 5 warrants. Interest is payable on a quarterly basis. The debenture, which is issued as part of the unit entitles the holder to convert all or any portion of the principal sum of the debenture into common shares of the Company over a period of 4 years on the following basis:

- a) \$0.40 per share in the first year (2001);
- b) \$0.40 per share in the second year (2002);
- c) \$0.40 per share in the third year (2003); and
- d) \$0.45 per share in the fourth year of the term.

If not converted to common shares, the debentures will mature December 31, 2004.

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

As at December 31, 2003, the fair value of the remaining \$100,000 of convertible debentures is approximately \$102,330 (2002 - \$445,329).

Effective July 1, 2003, the Company was approved by the TSX Venture Exchange for the repricing of the Company's \$400,000 convertible debentures. The conversion price of the debenture was amended to \$0.40 per share up to December 31, 2003 and to \$0.45 per share up to the debentures maturity date of December 31, 2004. The previous conversion price per share was \$0.50 in 2003 and \$0.75 in 2004.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

9. Income taxes

- a) The total provision for income taxes differs from the expected amount calculated by applying the combined basic federal and provincial tax rate of approximately 39.50% (2002 - 42.12%) to loss before income taxes. This difference results from the following items:

	<u>2003</u>	<u>2002</u>
Loss before income taxes	\$ <u>(1,085,416)</u>	\$ <u>(277,485)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (428,739)	\$ (116,907)
Increase (decrease) resulting from:		
Statutory rate change	(9,184)	(1,281)
Resource allowance	17,194	17,136
Share issue costs	(7,306)	(16,510)
Stock-based compensation	290,378	-
Other	<u>15,411</u>	<u>10,778</u>
Future income tax recovery	\$ <u>(122,246)</u>	\$ <u>(106,784)</u>

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

	<u>2003</u>	<u>2002</u>
Property and equipment	\$ 344,655	\$ 233,563
Share issue costs	(14,642)	(7,692)
Non-capital losses carry-forward	(171,019)	(69,576)
Other	<u>(4,103)</u>	<u>(6,881)</u>
	\$ <u>154,891</u>	\$ <u>149,414</u>

- c) Tax losses

The Company has incurred losses for income tax purposes of approximately \$434,000 (2002 - \$165,184), the related benefit of these losses has been recognized in the financial statements. Unless sufficient taxable income is earned these losses will expire as follows:

2007	\$ 9,000
2008	90,000
2009	66,000
2010	<u>269,000</u>
	\$ <u>434,000</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

9. Income taxes (Continued)

The Company has available the following approximate amounts which may be deducted, at the annual rates indicated, in determining taxable income of future years:

	<u>2003</u>	<u>2002</u>	<u>Rate</u>
Undepreciated capital cost	\$ 47,209	\$ 15,739	20-30%
Canadian exploration expense	1,060,052	1,196,199	100%
Foreign exploration and development expense	96,501	96,501	10%
Share issue costs	37,031	9,237	20%

10. Share capital

a) Authorized

Unlimited common shares
Unlimited preferred shares

b) Issued

	<u>2003</u>		<u>2002</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Common shares				
Beginning and end of year	6,526,002	\$ 1,823,159	6,526,002	\$ 1,823,159
Issued for:				
Cash	5,420,000	1,095,600	-	-
Cash on exercise of warrants	1,000,000	150,000	-	-
Conversion of debenture	750,000	300,000	-	-
Exercise of options	600,000	225,000	-	-
Flow-through shares, net	538,916	195,627	-	-
Share issue costs	-	(46,288)	-	-
Balance, end of Year	<u>14,834,918</u>	<u>\$ 3,743,098</u>	<u>6,526,002</u>	<u>\$ 1,823,159</u>

Under the terms of the current year flow-through agreements, the Company is required to expend \$323,350 on qualifying oil and natural gas expenditures prior to December 31, 2004. As at December 31, 2003, the Company had not incurred any qualifying expenditures.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

10. Share capital (Continued)

c) Stock options

The Company has a stock option plan available to officers, directors, employees of the Company, and to key consultants. During the year, the Company reserved 845,000 common shares at \$0.25 per share and 1,190,000 common shares at \$0.45. In December 2003 600,000 common shares were exercised at \$0.25 per share by several officers and consultants of the Company. On December 31, 2003, 1,445,000 common shares with exercise prices ranging between \$0.25 and \$0.45 were outstanding and exercisable at various dates to December 23, 2008, and were reserved for issuance under the plan. Options granted under the plan generally have a term of five years to expiry.

<u>Outstanding and exercisable</u>	<u>2003</u>		<u>2002</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Beginning of year	651,998	\$ 0.49	651,998	\$ 0.49
Granted	2,035,000	\$ 0.37	-	\$ -
Exercised	(600,000)	\$ 0.25	-	\$ -
Cancelled	(651,998)	\$ 0.49	-	\$ -
	<u>1,435,000</u>	<u>\$ 0.42</u>	<u>651,998</u>	<u>\$ 0.49</u>

<u>Expiry Dates</u>	<u>2003</u>		<u>2002</u>	
	<u>Number of Options</u>	<u>Price</u>	<u>Number of Options</u>	<u>Price</u>
April 10, 2003	-	\$ -	541,000	\$ 0.50
April 13, 2004	-	\$ -	33,000	\$ 0.50
July 17, 2005	-	\$ -	52,000	\$ 0.40
September 6, 2005	-	\$ -	25,998	\$ 0.40
April 10, 2008	245,000	\$ 0.25	-	\$ -
December 23, 2008	<u>1,190,000</u>	<u>\$ 0.45</u>	-	\$ -
	<u>1,435,000</u>	<u>\$ 0.42</u>	<u>651,998</u>	<u>\$ 0.49</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

10. Share capital (Continued)

<u>Exercise Price</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>
\$0.25 - \$0.45	<u>1,435,000</u>	<u>4.85</u>	<u>\$0.42</u>	<u>1,435,000</u>	<u>\$0.42</u>

The weighted average fair market value of options granted for the year ended December 31, 2003 is \$0.36 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>2003</u>
Risk-free interest rate	4.37%
Estimated hold period prior to exercise (years)	5
Volatility in price of the Company's shares	133.12%
Dividend yield rate	0%

d) Warrants

Warrants outstanding at December 31, 2003 and 2002 are as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning of year	-	\$ -	-	\$ -
Issued in conjunction with:				
Private placement [d(ii)]	1,000,000	-	-	-
Sidox transaction [d(iii)]	2,000,000	10	-	-
Private placement [d(iv)]	1,420,000	-	-	-
Private placement [d(v)]	2,000,000	-	-	-
Exercised [d(ii)]	(1,000,000)	-	-	-
Expired	-	-	-	-
Balance, end of year	<u>5,420,000</u>	<u>\$ 10</u>	<u>-</u>	<u>\$ -</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

10. Share capital (Continued)

- i) Series 5 warrants are issued as part of the convertible debentures (Note 8) and entitle the holders to subscribe for one (1) flow-through common shares of the Company over a period of two years at a price of \$0.60 per share if exercised on or before December 31, 2001 and at a price of \$0.80 per share if exercised on or before December 31, 2002.

During the year, the Series 5 warrants subscription price was amended to \$0.40 per share if exercised on or before December 31, 2001 and \$0.45 if exercised on or before December 31, 2002. As at December 31, 2002, these warrants expired.

- ii) In conjunction with a private placement occurring May 13, 2003, the Company issued 1,000,000 warrants entitling holders to acquire one common share at \$0.15. As at December 31, 2003, all the warrants have been exercised.
- iii) As of June 11, 2003, the Company acquired 100% of Sidox Chemicals Canada Ltd. The consideration paid for the purchase of all of the issued and outstanding shares of Sidox Canada is the issuance of 2,000,000 non-transferable performance warrants with a deemed value of \$10, entitling holders to acquire one common share at \$0.25 for two years and \$0.35 in the third year. The warrants can only be exercised if Sidox Canada acquires a ten year exclusive license for Sidox and if wells in which the Company holds an interest that have been treated with Sidox achieve a minimum 25% barrel of oil per day increase for a period of 100 days. The purchase of Sidox Canada was from a company controlled by a director of the Company.
- iv) In conjunction with the private placement occurring September 11, 2003, the Company issued 1,420,000 warrants entitling holders to acquire one common share at \$0.18. These warrants expire March 9, 2004. Subsequent to year end, all of the warrants were exercised.
- v) In conjunction with a private placement occurring November 2, 2003, the Company issued 2,000,000 warrants entitling holders to acquire one common share at \$0.35. Subsequent to year end, 1,850,000 warrants were exercised. The remaining 150,000 warrants expire November 30, 2004.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

11. Per share amounts

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

	<u>2003</u>	<u>2002</u>
Weighted average shares outstanding:		
Basic	9,606,821	6,526,002
Shares issued pursuant to options	55,642	-
Shares issued pursuant to warrants	<u>1,084,019</u>	<u>-</u>
Diluted	<u>10,746,482</u>	<u>6,526,002</u>
Per share amounts:		
Basic loss	\$ (0.10)	\$ (0.03)
Diluted loss	\$ (0.10)	\$ (0.03)

In calculating diluted common share amounts for the year ended December 31, 2003, the Company excluded 3,290,000 options, warrants and convertible debentures (2002 – 1,051,998), because the exercise price was greater than the average market price of its common shares in those years.

12. Related party transactions

During the year, the Company paid consulting fees to certain officers and directors and debenture interest to a company controlled by a director. These transactions were measured at the exchange amount which approximated fair market value as set out below:

	<u>2003</u>	<u>2002</u>
Consulting fees	\$ 92,887	\$ 81,139
Debenture interest	<u>4,000</u>	<u>4,000</u>
	<u>\$ 96,887</u>	<u>\$ 85,139</u>

The following related party balances were included in certain balance sheet amounts:

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

12. Related party transactions (Continued)	<u>2003</u>	<u>2002</u>
Accounts payable	\$ <u> -</u>	\$ <u> 1,000</u>

The Company also purchased Sidox Chemicals Canada Ltd. from the company controlled by a director of the Company (see Note 4).

13. Contingent liabilities

- a) The Company is party to a joint venture agreement covering Exploration License No. 397 (EL-397) in the Central Mackenzie Valley, Northwest Territories. Pursuant to the agreement, the Company and its joint venture participants were required to provide a \$4,145,000 refundable work deposit and commit to expend \$16,580,000 on qualified exploration and development expenditures on EL-397 by August 1, 2004. The work deposit will be refunded by \$1 for every \$4 spent on qualified exploration and development expenditures on EL-397. In 2002, the Company lodged an irrevocable standby letter of credit for \$192,352 for its share of a refundable work deposit on EL-397. The letter of credit is secured by an assignment of cash of \$192,352. The Company is contingently liable under the letter of credit for any portion of the work commitment not fulfilled. Pursuant to an agreement with a joint venture participant the Company's letter of credit of \$192,352 is fully secured and refundable by the joint venture participant.

Subsequent to December 31, 2003, the work commitment on EL-397 was fulfilled and a refund of \$189,000 is due the Company.

- b) The Company is party to a joint venture agreement covering Exploration License No. 416 (EL-416) in the Central Mackenzie Valley, Northwest Territories. Pursuant to the agreement, the Company and its joint venture participants were required to provide a \$381,608 refundable work deposit and commit to expend \$1,526,430 on qualified exploration and development expenditures on EL-416 by September 18, 2005. The work deposit will be refunded by \$1 for every \$4 spent on qualified exploration and development expenditures on EL-416. In 2001, the Company lodged an irrevocable standby letter of credit for \$41,500 for its share of a refundable work deposit on EL-416.

The letter of credit is secured by an assignment of cash of \$41,500. The Company is contingently liable under the letter of credit for any portion of the work commitment not fulfilled.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

14. Supplemental cash flow information	<u>2003</u>	<u>2002</u>
Changes in non-cash working capital items increased (decrease) cash as follows:		
Receivables	\$ (473,383)	\$ 9,658
Prepays	(5,660)	(4,849)
Payables and accruals	<u>10,489</u>	<u>(10,243)</u>
	<u>\$ (468,554)</u>	<u>\$ (5,434)</u>
Operating activities	\$ (106,578)	\$ 11,916
Investing activities	(378,829)	(16,850)
Financing activities	<u>16,853</u>	<u>(500)</u>
	<u>\$ (468,554)</u>	<u>\$ (5,434)</u>
Cash and cash equivalents are represented by:		
Cash and temporary investments	\$ 1,027,864	\$ 50,411
Restricted cash	<u>292,426</u>	<u>292,426</u>
	<u>\$ 1,320,290</u>	<u>\$ 342,837</u>
Interest paid	<u>\$ 29,666</u>	<u>\$ 33,367</u>

15. Commitments

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

2004	\$ 22,341
2005	\$ 26,809
2006	\$ 26,809

- b) The Company is party to a joint venture agreement covering Exploration License No. 401 (EL-401) in the Central Mackenzie Valley, Northwest Territories. Pursuant to the agreement the joint venture participants have a work commitment to spend \$12,750,000 on qualified exploration and development expenditures. The Company's proportionate share of the work commitment is \$594,239. As at December 31, 2003, the Company has incurred \$426,473 of this work commitment.
- c) The Company is committed to purchase two additional tonnes of the chemical compound Sidox for an aggregate amount of \$90,000 in 2004.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2003

16. Subsequent events

- a) On April 4, 2004, the Company entered into an agreement to purchase two operated properties in southern Alberta. The first property in the Brooks area consists of a 75% working interest in six producing oil wells, three water disposal wells, three shut-in wells and related oil battery facilities. The Brooks property was purchased for a cash consideration of \$881,000 and was successfully closed on April 27, 2004.

In the Ferguson area of southern Alberta the Company has agreed to buy a 100% interest in two producing oil wells, one suspended oil well, one water source well, one water injection well and related facilities and equipment. The properties were purchased for a cash consideration of \$75,000 and successfully closed on April 28, 2004.

Financing of the above production acquisitions is by way of issuing up to \$1,000,000 in convertible redeemable debentures. The terms of the debenture are; four year term, 9.5% interest rate, convertible into common shares in year one at \$0.60, year 2 at \$0.65, year 3 at \$0.70 and year 4 at \$0.75. The debentures will carry a floating charge over the assets of the Company and can be redeemed by the Company for face value plus interest. Holders of the debenture have thirty days from date of redemption notice to either convert into common shares at the annual share price conversion rate or elect to have the debenture redeemed.

- b) In May, 2004 the remaining debenture holders of the 2001 debentures elected to convert into 222,222 common shares at \$0.45 per share.
- c) On May 17, 2004, the Company announced that it had entered into a non-brokered private placement of a minimum 4 million – maximum 6 million units at a price of \$0.80 per unit. Each unit consists of one common share, one series “A” warrant and one series “B” warrant. Two series “A” warrants entitle the holder thereof to acquire one common share at \$1.15 per share for a period of 180 days. Two series “B” warrants entitle the holder thereof to acquire one common share of \$1.50 for a period of 180 days from the date of exercise of exercise of the series “A” warrant. Series “B” warrants can only be exercised if the series “A” warrants are fully subscribed. The warrants contain terms that provide for their conversion into common shares at the Company’s option in the event the market price of the common shares exceeds certain levels for a certain period of time. The Company has agreed to pay a commission in the form of common shares to investment dealers in an amount equal to 10% of the number of units placed in the financing. The private placement is subject to the TSX Venture Exchange approval.

17. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.