

International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2004

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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, 2004 and 2003 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, 2004 and 2003 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 11, 2005

Chartered Accountants

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International Frontier Resources Corporation

Consolidated Balance Sheets

December 31 2004 2003

Assets

Current

Cash and cash equivalents	\$ 9,961,732	\$ 1,027,864
Receivables	195,095	488,312
Prepays	<u>12,273</u>	<u>11,859</u>
	10,169,100	1,528,035

Restricted cash (Note 5)	351,500	292,426
Property and equipment (Note 6)	4,270,408	1,753,034
Investment (Note 7)	<u>-</u>	<u>3,675</u>
	\$ 14,791,008	\$ 3,577,170

Liabilities

Current

Payables and accruals	\$ 214,944	\$ 158,548
Asset retirement obligations (Note 8)	232,752	-
Future income taxes (Note 9)	668,488	154,891
Convertible debentures (Notes 10 and 18)	<u>216,860</u>	<u>99,217</u>
	<u>1,333,044</u>	<u>412,656</u>

Shareholders' Equity

Share capital (Note 11b)	15,475,755	3,743,098
Contributed surplus	2,588,519	660,135
Equity component of convertible debentures	8,140	783
Warrants (Note 11e)	10	10
Deficit	<u>(4,614,460)</u>	<u>(1,239,512)</u>
	<u>13,457,964</u>	<u>3,164,514</u>
	\$ 14,791,008	\$ 3,577,170

Contingent liabilities (Note 14)

Subsequent events (Note 18)

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 Loss and Deficit

Years ended December 31, 2004 2003

Revenue		
Oil	\$ 693,270	\$ -
Less: gross overriding royalties	<u>(131,939)</u>	<u>-</u>
	561,331	-
Interest and other income	<u>64,299</u>	<u>7,663</u>
	<u>625,630</u>	<u>7,663</u>
Expenses		
Operating costs	411,930	-
Depletion and depreciation	1,435,685	4,748
Accretion of asset retirement obligations (Note 8)	21,004	-
General and administration	717,109	351,318
Stock based compensation	2,067,864	735,135
Write off investment	3,675	-
Interest and bank charges	<u>5,905</u>	<u>1,878</u>
	<u>4,663,172</u>	<u>1,093,079</u>
Loss before income taxes	(4,037,542)	(1,085,416)
Future income tax recovery (Note 9)	<u>(662,594)</u>	<u>(122,246)</u>
Net loss	\$ <u>(3,374,948)</u>	\$ <u>(963,170)</u>
Net loss per share		
Basic (Note 12)	\$ <u>(0.15)</u>	\$ <u>(0.10)</u>
Diluted (Note 12)	\$ <u>(0.15)</u>	\$ <u>(0.10)</u>
<hr/>		
Deficit, beginning of year	\$ (1,239,512)	\$ (276,342)
Net loss	<u>(3,374,948)</u>	<u>(963,170)</u>
Deficit, end of year	\$ <u>(4,614,460)</u>	\$ <u>(1,239,512)</u>

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Cash Flows

Years ended December 31

2004

2003

Operating

Net loss	\$ (3,374,948)	\$ (963,170)
Depletion and depreciation	1,435,685	4,748
Accretion of asset retirement obligations	21,004	-
Stock based compensation	2,067,864	735,135
Write off of investment	3,675	-
Future income tax recovery	<u>(662,594)</u>	<u>(122,246)</u>
	(509,314)	(345,533)
Change in non-cash operating working capital (Note 16)	<u>124,529</u>	<u>(106,578)</u>
	<u>(384,785)</u>	<u>(452,111)</u>

Investing

Additions to petroleum and natural gas properties	(3,741,311)	(190,965)
Proceeds from disposition of property and equipment	<u>-</u>	<u>309,843</u>
	(3,741,311)	118,878
Change in non-cash investing working capital (Note 16)	<u>201,730</u>	<u>(378,829)</u>
	<u>(3,539,581)</u>	<u>(259,951)</u>

Financing

Shares issued for cash	12,808,518	1,718,950
Share issue costs	(889,151)	(46,288)
Convertible debentures	<u>975,000</u>	<u>-</u>
	12,894,367	1,672,662
Change in non-cash financing working capital (Note 16)	<u>22,941</u>	<u>16,853</u>
	<u>12,917,308</u>	<u>1,689,515</u>

Net increase in cash and cash equivalents 8,992,942 977,453

Cash and cash equivalents,

Beginning of year	<u>1,320,290</u>	<u>342,837</u>
End of year	<u>\$ 10,313,232</u>	<u>\$ 1,320,290</u>

Cash and cash equivalents are represented by:

Cash and temporary investments	\$ 9,961,732	\$ 1,027,864
Restricted cash	<u>351,500</u>	<u>292,426</u>
	<u>\$ 10,313,232</u>	<u>\$ 1,320,290</u>

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

1. Nature of operations

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

The costs associated with the acquisition and development thereon to date is recognized in these 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

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sidox Chemicals Canada Ltd. All inter-company transactions and balances are eliminated upon consolidation.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below.

Measurement uncertainty

The preparation of consolidated 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. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

The most significant estimate is related to the recoverability of petroleum and natural gas properties. Amounts recorded for depletion and depreciation, asset retirement obligations and amounts used in impairment test calculations are based upon estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the consolidated financial statements of future periods could be material.

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.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

2. Summary of significant accounting policies (Continued)

Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas operations as determined by the Canadian Institute of Chartered Accountants ("CICA"), Accounting Guideline 16 ("AcG-16"), 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 is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion.

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%.

At each reporting period the Company performs an impairment test to determine the recoverability of capitalized costs associated with reserves. An impairment loss is recognized in net earnings when the carrying amount of a cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves plus the costs of unproved properties. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of the fair value of proved and probable reserves and the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Asset retirement obligations

The Company recognizes the fair value of estimated asset retirement obligations on the consolidated balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long lived assets such as well sites, pipelines and facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Asset retirement costs are amortized using the unit-of-production method and are included in depletion and depreciation in the consolidated statements of loss and deficit. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligations in the consolidated statements of loss and deficit.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

2. Summary of significant accounting policies (Continued)

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 at the time the resource expenditure deductions are renounced.

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.

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.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

2. Summary of significant accounting policies (Continued)

Financial instruments

The Company has estimated the fair value of its financial instruments, which include cash and cash equivalents, 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 key consultants, 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 key consultants, 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.

Revenue recognition

Revenue associated with the production and sales of crude oil, natural gas and natural gas liquids owned by the Company are recognized when title passes from the Company to its customer. Other revenue is recognized in the period that the service is provided to the customer.

3. Change in accounting policies

- a) During the fourth quarter of 2003, the Company adopted the new recommendations of the 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 and \$2,067,864 of compensation expense for options granted in 2004.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

3. Change in accounting policies (Continued)

- b) Effective January 1, 2004, the Company retroactively adopted the new Canadian accounting standard as outlined in CICA Handbook section 3110 "Asset Retirement Obligations". Prior to January 1, 2004, the Company had not incurred any obligation for restorations. As such, the adoption of the new standard did not effect any period prior to 2004.
- c) Effective January 1, 2004, the Company adopted CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost". The new guideline modifies the way the impairment test is performed and requires cost centres be tested for recoverability using undiscounted future cash flows from proved reserves plus the cost of undeveloped properties. When the carrying amount of the asset is not recoverable, the asset would be written down to its fair value. Fair value is determined to be discounted cash flow plus the cost of undeveloped properties. Discounted cash flow is calculated using a present value technique that incorporates proved plus probable reserves, prices that are consistent with those used by the Company in developing other corporate information and a risk free interest rate. The adoption of the guideline resulted in an impairment charge relating to property and equipment (see Note 6).
- d) Effective January 1, 2004, the Company adopted the standards outlined in CICA Handbook section 3063, "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of any impairment of long-lived assets comprised of office equipment. An impairment is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company estimates fair value based upon current prices for similar assets. The accounting policy has been adopted prospectively and had no impact on the consolidated financial statements.

4. Business combination

In June 2003, the Company acquired all the issued and outstanding shares of Sidox Chemicals Canada Ltd. ("Sidox Canada"). Sidox Canada was a related party due to a common director. 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 the 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 11 e))	\$ <u>10</u>
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International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

5. Restricted cash

As at December 31, 2004, the Company has provided an assignment of cash totalling \$nil (2003 - \$192,352) and \$41,500 (2003 - \$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 14). During the year, the Company fulfilled work commitments related to Exploration License No. 397 which resulted in \$192,352 having been returned to the Company.

On June 4, 2004, the Company was successful in obtaining License No. 423 and has provided an assignment of cash totalling \$310,000 as security on the irrevocable standby letters of credit against refundable deposits on Northwest Territories Exploration License No. 423.

The Company had an outstanding letter of credit on Northwest Territories Exploration License No. 391 for delay rentals. As at December 31, 2004, the amount of restricted cash is \$Nil (2003 - \$58,574).

6. Property and equipment

December 31, 2004

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

December 31, 2003

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</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
Options	<u>14,201</u>	<u>-</u>	<u>14,201</u>
	<u>\$ 1,944,574</u>	<u>\$ 191,540</u>	<u>\$ 1,753,034</u>

The Company has financed a portion of its exploration and development activities from the proceeds of flow-through share issues. As a result, petroleum and natural gas properties with a cost of \$4,899,473 (2003 - \$908,993) have no cost basis for income tax purposes. During the year, \$59,043 (2003 - \$60,987) of overhead expenses directly related to exploration and development activities were capitalized and \$38,594 (2003 - \$29,666) of interest expense was capitalized. Also during the year \$549,228 (2003 - \$14,201) of expenses incurred in conducting a pilot project to test the Sidox product were capitalized to petroleum and natural gas properties.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

6. Property and equipment (Continued)

As at December 31, 2004, undeveloped properties with a cost of \$3,550,670 included in petroleum and natural gas properties have not been subject to depletion.

As at December 31, 2004, a \$859,723 impairment of petroleum and natural gas assets has been recorded to reflect the excess carrying amount of assets over fair value of future reserves. This amount is included in depletion and depreciation on the consolidated statements of loss and deficit.

The prices used in the impairment test evaluation of the Company's petroleum properties were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Increase Thereafter</u>
Crude oil BBL	\$38.84	\$39.20	\$36.74	\$34.86	\$34.40	\$34.28	1.5%

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.

7. Investment

The market value of the portfolio investment as at December 31, 2004 is \$nil (2003 - \$5,425).

8. Asset retirement obligations

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

	<u>2004</u>
Balance, beginning of year	\$ -
Liabilities incurred	211,748
Liabilities settled	-
Accretion expense	<u>21,004</u>
Balance, end of year	\$ <u>232,752</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

9. Income taxes

- a) The total provision for income taxes differs from the expected amount calculated by applying the combined federal and provincial tax rate of approximately 38.50% (2003 - 39.50%) to loss before income taxes. This difference results from the following items:

	<u>2004</u>	<u>2003</u>
Loss before income taxes	\$ <u>(4,037,542)</u>	\$ <u>(1,085,416)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (1,554,454)	\$ (428,739)
Increase (decrease) resulting from:		
Statutory rate change	(1,549)	(9,184)
Resource allowance	50,882	17,194
Stock-based compensation	796,128	290,378
Other	<u>46,399</u>	<u>8,105</u>
Future income tax recovery	\$ <u>(662,594)</u>	\$ <u>(122,246)</u>

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

	<u>2004</u>	<u>2003</u>
Property and equipment	\$ 1,401,078	\$ 344,655
Asset retirement obligations	(89,610)	-
Share issue costs	(266,071)	(14,642)
Non-capital losses carry-forward	(361,378)	(171,019)
Other	<u>(15,531)</u>	<u>(4,103)</u>
	\$ <u>668,488</u>	\$ <u>154,891</u>

- c) Tax losses

The Company has incurred losses for income tax purposes of approximately \$938,000 (2003 - \$430,000), the related benefit of these losses has been recognized in the consolidated financial statements by reducing future income taxes. Unless sufficient taxable income is earned these losses will expire as follows:

2008	\$ 9,000
2009	90,000
2010	66,000
2011	265,000
2012	<u>508,000</u>
	\$ <u>938,000</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

10. Convertible debentures

During the year, the balance of the remaining \$100,000 in convertible debentures issued in 2001 were converted to 222,222 common shares of the Company.

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

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

As at December 31, 2004 \$750,000 of debentures had been converted into 1,249,990 common shares of the Company. At December 31, 2004 the fair value of the remaining \$225,000 of convertible debentures is approximately \$216,860.

11. Share capital

a) Authorized

Unlimited common shares
Unlimited preferred shares

b) Issued	2004		2003	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Beginning of year	15,034,918	\$ 3,743,098	6,526,002	\$ 1,823,159
Issued for cash	6,861,250	5,581,363	5,620,000	1,155,600
Issued upon exercise of warrants	5,267,500	3,010,925	1,000,000	150,000
Issued upon exercise of options	430,000	305,230	600,000	225,000
Issued upon conversion of debentures	1,472,212	850,000	750,000	300,000
Flow-through shares, net	2,940,700	2,454,145	538,916	195,627
Tax effected share issue costs	-	(469,006)	-	(106,288)
Balance, end of year	32,006,580	\$ 15,475,755	15,034,918	\$ 3,743,098

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

11. Share capital (Continued)

c) Flow-through share information	<u>2004</u>	<u>2003</u>
Carried forward from prior year	\$ 323,350	\$ -
Amount of flow-through shares issued	3,990,480	323,350
Expenditures incurred	<u>(323,350)</u>	<u>-</u>
Remaining obligation	\$ <u>3,990,480</u>	\$ <u>323,350</u>

Under the terms of the current year flow-through agreement, the Company is required to expend \$3,990,480 (2003 - \$323,300) on qualifying oil and natural gas expenditures prior to December 31, 2005, none of which has been incurred as of December 31, 2004. As at December 31, 2004, the Company had incurred all of the 2003 requirements.

d) Stock options

The Company has a stock option plan available to key consultants, officers, directors, and employees of the Company. For the year ending December 31, 2004, the Company issued 1,805,000 options at an average exercise price of \$1.34 per share. During the year, 430,000 options were exercised at an average price of \$0.39 per share. On December 31, 2004, 2,810,000 options with exercise prices ranging between \$0.25 and \$1.60 were outstanding and exercisable at various dates to December 23, 2009, and were reserved for issuance under the plan. Options granted under the plan generally have a term of five years to expiry.

Outstanding and exercisable

	<u>2004</u>		<u>2003</u>
	Weighted Average Exercise Price		Weighted Average Exercise Price
	Number of <u>Options</u>	Number of <u>Options</u>	
Beginning of year	1,435,000	651,998	\$ 0.49
Granted	1,805,000	2,035,000	\$ 0.37
Exercised	(430,000)	(600,000)	\$ 0.25
Cancelled	<u>-</u>	<u>(651,998)</u>	<u>\$ 0.49</u>
Balance, end of year	<u>2,810,000</u>	<u>1,435,000</u>	<u>\$ 0.42</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

11. Share capital (Continued)

<u>Expiry Dates</u>	<u>2004</u>		<u>2003</u>	
	<u>Number of Options</u>	<u>Price</u>	<u>Number of Options</u>	<u>Price</u>
April 10, 2008	90,000	\$ 0.25	245,000	\$ 0.25
December 23, 2008	1,090,000	\$ 0.45	1,190,000	\$ 0.45
January 26, 2008	90,000	\$ 0.50	-	\$ -
April 1, 2009	90,000	\$ 0.45	-	\$ -
November 16, 2009	650,000	\$ 1.50	-	\$ -
December 23, 2009	800,000	\$ 1.60	-	\$ -
	<u>2,810,000</u>	<u>\$ 1.02</u>	<u>1,435,000</u>	<u>\$ 0.42</u>

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercisable Price</u>
\$0.25 - \$0.50	1,360,000	3.94	\$ 0.44	1,360,000	\$ 0.44
\$1.50 - \$1.60	1,450,000	4.94	\$ 1.56	1,450,000	\$ 1.56
	<u>2,810,000</u>	<u>4.52</u>	<u>\$ 1.02</u>	<u>2,810,000</u>	<u>\$ 1.02</u>

The weighted average fair market value of options granted for the period ended December 31, 2004 is \$1.15 per option (2003 - \$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>2004</u>	<u>2003</u>
Risk-free interest rate	3.75%	4.37%
Estimated hold period prior to exercise (years)	5	5
Volatility in price of the Company's shares	121.57%	133.12%
Dividend yield rate	0%	0%

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

11. Share capital (Continued)

e) Warrants

Warrants outstanding are as follows:

	2004		2003	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	5,420,000	\$ 10	-	\$ -
Issued in conjunction with				
Private Placement (i)	-	-	2,000,000	10
Private Placement (ii)	-	-	1,000,000	-
Private Placement (iii)	250,000	-	2,000,000	-
Private Placement (iv)	-	-	1,420,000	-
Private Placement (v)	12,128,000	-	-	-
Flow-through shares (vi),(vii)	1,565,225	-	-	-
Exercised	(6,915,000)	-	(1,000,000)	-
Expired	(50,000)	-	-	-
	12,398,225	\$ 10	5,420,000	\$ 10

	2004			2003		
	Number of Warrants Outstanding	Exercise Price	Number of Common Shares for Exercise of Warrants	Number of Warrants Outstanding	Exercise Price	Number of Common Shares for Exercise of Warrants
Private Placement (i)	2,000,000	\$ 0.25	2,000,000	2,000,000	\$ 0.25	2,000,000
Private Placement (ii)	-	\$ -	-	-	\$ -	-
Private Placement (iii)	-	\$ -	-	2,000,000	\$ 0.35	2,000,000
Private Placement (iv)	-	\$ -	-	1,420,000	\$ 0.24	1,420,000
Private Placement (v)*	2,769,000	\$ 1.15	1,384,500	-	\$ -	-
Private Placement (v)*	6,064,000	\$ 1.50	3,032,000	-	\$ -	-
Flow-through Shares (vi), (vii)	1,565,225	\$ 1.75	1,565,225	-	\$ -	-
	12,398,225	\$ 1.18	7,981,725	5,420,000	\$ 0.28	5,420,000

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

11. Share capital (Continued)

- i) As of June 11, 2003, the Company acquired 100% of Sidox Canada. The consideration paid for the purchase of all of the issued and outstanding shares of Sidox Canada is the issuance of 2,000,000 non-transferable performance warrants with a deemed value of \$10, entitling holders to acquire one common share at \$0.25 for two years and \$0.35 in the third year. The warrants can only be exercised if Sidox Canada acquires a ten year exclusive license for Sidox and if wells in which the Company holds an interest that have been treated with Sidox achieve a minimum 25% barrel of oil per day increase for a period of 100 days. The purchase of Sidox Canada was from a company controlled by a director of the Company.
- ii) In conjunction with a private placement occurring May 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 had been exercised.
- iii) 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. During the second quarter of 2004 the Company issued an additional 250,000 warrants as payment of commissions. As at December 31, 2004 all of the above mentioned warrants have been exercised.
- iv) In conjunction with a private placement occurring September 11, 2003, the Company issued 1,420,000 warrants entitling holders to acquire one common share at \$0.24. During the year 1,370,000 warrants were exercised and 50,000 warrants expired.
- v) In conjunction with a private placement occurring May 17, 2004 and closing July 19, 2004, the Company issued 6,064,000 units. Each unit consists of one common share, one Series "A" warrant and one Series "B" warrant. Two Series "A" warrants entitle the holder to acquire one common share at \$1.15 per share for a period of 180 days. Two Series "B" warrants entitle the holder to acquire one common share at \$1.50 for a period of 365 days. Series "B" warrants can only be exercised if the holder has exercised the Series "A" warrant. At December 31, 2004, 3,295,000 Series "A" warrants have been exercised.
- vi) In conjunction with a private placement occurring September 29, 2004 and closing October 26, 2004 the Company issued 2,530,000 flow-through share units for total proceeds of \$3,415,500. Each unit consists of one common flow-through share and one-half Series "C" warrant. One full warrant entitles the holder to purchase one additional non-flow through common share at a price of \$1.75 on or before June 30, 2005. A commission of 7.5% was paid to the Underwriters by issuance of 189,750 non-flow through units consisting of one common share and one half warrant having the same terms and conditions as the units comprised in the offering.
- vii) In conjunction with a non-brokered private placement occurring November 10, 2004 and closing on December 23, 2004, the Company issued 410,700 flow-through share units for total proceeds of \$574,980. Each unit consists of one common flow-through share and one-half Series "C" warrant. One full warrant entitles the holder to purchase one additional non-flow through common share at a price of \$1.75 on or before June 30, 2005.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

12. Per share amounts

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

Weighted average shares outstanding:

	<u>2004</u>	<u>2003</u>
Basic, beginning of year	22,551,889	9,606,821
Shares issued pursuant to options	761,500	55,642
Shares issued pursuant to conversion of debenture	150,000	-
Shares issued pursuant to warrants	<u>1,500,000</u>	<u>1,084,019</u>
Diluted, end of year	<u>24,963,389</u>	<u>10,786,482</u>

In calculating diluted common share amounts for the year ended December 31, 2004, the Company excluded 11,847,225 options and warrants (2003 – 3,290,000), because the exercise price was greater than the average market price of its common shares in those years.

13. 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>2004</u>	<u>2003</u>
Consulting fees	\$ 155,120	\$ 92,887
Debenture interest	<u>2,000</u>	<u>4,000</u>
	<u>\$ 157,120</u>	<u>\$ 96,887</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

14. Contingent liabilities

- a) 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. Subsequent to year end, the \$1,526,430 work commitment has been fulfilled and an application for the return of the Company's letter of credit has been made.

- b) The Company is party to a joint venture agreement covering Exploration License No. 423 (EL-423) in the Central Mackenzie Valley, Northwest Territories. Pursuant to the agreement, the Company and its joint venture participants were required to provide a \$6,200,000 refundable work deposit and commit to expend \$24,800,000 on qualified exploration and development expenditures on EL-423 by June 1, 2008. The work deposit will be refunded by \$1 for every \$4 spent on qualified exploration and development expenditures on EL-423. In June, 2004 the Company lodged an irrevocable standby letter of credit for \$310,000 for its share of a refundable work deposit on EL-423. The letter of credit is secured by an assignment of cash of \$310,000. The Company is contingently liable under the letter of credit for any portion of the work commitment not fulfilled.

15. Financial Instruments

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

a) **Commodity price risk**

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

b) **Credit risk**

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

16. Supplemental cash flow information

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

	<u>2004</u>	<u>2003</u>
Receivables	\$ 293,218	\$ (473,383)
Prepays	(414)	(5,660)
Payables and accruals	<u>56,396</u>	<u>10,489</u>
	<u>\$ 349,200</u>	<u>\$ (468,554)</u>
Operating activities	\$ 124,529	\$ (106,578)
Investing activities	201,730	(378,829)
Financing activities	<u>22,941</u>	<u>16,853</u>
	<u>\$ 349,200</u>	<u>\$ (468,554)</u>
Interest paid	<u>\$ 38,594</u>	<u>\$ 29,666</u>

17. Commitments

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

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

18. Subsequent events

- a) On February 10, 2005, the Company announced that the Katlodeeche First Nations ("KFN") have signed a Memorandum of Understanding to form a joint venture with the Company to explore for oil and gas on Katlodeeche lands. Concurrent with reaching this agreement the Company issued 75,000 common shares of the Company to KFN on March 7, 2005, pursuant to the terms and conditions of the Memorandum of Understanding.
- b) On February 11, 2005, the Company announced the issuance of 900,000 stock options to Directors and senior management under the Company's stock option plan. The options have an exercise price of \$1.85 per share and are subject to TSX Venture approval.
- c) Subsequent to year end, 2,635,000 Series "A" warrants representing 1,317,500 shares of the Company and 1,278,200 Series "B" warrants representing 639,100 shares of the Company were exercised related to the private placement occurring July 19, 2004 (Note 11e v)).

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2004

18. Subsequent events (Continued)

- d) Subsequent to year end, 226,470 Series "C" warrants issued in conjunction with private placements occurring on October 26, 2004 and December 23, 2004 (Note 11e) vi) & vii) were exercised.

19. Comparative figures

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

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Forward Looking Statements

This Management Discussion and Analysis (MD&A) contains forward-looking or outlook information which reflects management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "project", "should", "believe", "outlook", "forecast" and similar expressions are intended to identify forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in these forward-looking statements. Although management believes the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that actual results will be consistent with these forward-looking statements. Readers should not put undue reliance on forward-looking information. These statements are made as of the date hereof and management assumes no obligation to update or revise these statements to reflect new events or circumstances.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this management discussion and analysis.

- Volatility in market prices for oil and natural gas;
- Risks inherent in our operations;
- Geological, technical, drilling and processing problems;
- General economic conditions;
- Industry conditions, including fluctuation in the price of oil and natural gas;
- Governmental regulation;
- Fluctuation in foreign exchange and interest rates;
- Unanticipated events that can reduce production or cause production to be shut-in or delayed;
- Failure to obtain industry partner and other third party consents and approvals, when required;
- The need to obtain required approvals from regulatory authorities; and
- The other factors discussed under "Operational and Other Business Risks" in this management discussion and analysis.

Overview

International Frontier Resources Corporation is engaged primarily in the exploration for and development of petroleum and natural gas reserves in the Northwest Territories, Canada and in conducting research and development of a patented oil production enhancement technology. The following is management's discussion and analysis ("MD&A") of International Frontier Resources Corporation's ("International Frontier" or the "Company") operating and financial results for the year ending December 31, 2004, as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's December 31, 2004 and December 31, 2003 audited consolidated financial statements and related notes and includes information to April 5, 2005.

**International Frontier Resources Corporation
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Management Discussion

The Company's business plan is two fold, first to acquire acreage in under-explored areas of the Northwest Territories early in the exploration cycle. The Company's goal is to internally generate prospects in the NWT and enter into industry joint ventures to assist in funding seismic and drilling operations. Secondly, the Company conducts research and development on a patented oil production enhancement technology "SIDOX" with the objective of commercializing the SIDOX technology for use in Canada.

Northwest Territories Canada
Central Mackenzie Valley Area – Flintstone Project

The Company acquired its first tranche of acreage in the Central Mackenzie Valley in 1998 by entering into a freehold lease and grant covering 100,000 acres with the Tulita District Land Corporation ("TDL"). Following the TDL acquisition the Company acquired an exploration license (EL 391) and entered into a series of farmout – joint venture agreements pursuant to which the Company received a carried interest in certain seismic and drilling costs. The Company and its partners have now participated in the acquisition of four additional exploration licenses in the area, having assembled in excess of one million gross acres.

To date the Company has participated in drilling five exploration wells and in the acquisition of over 1,000 kilometers of 2D seismic. Gross capital expenditures in the project area have totaled in excess of \$85 million. The consortium has fulfilled the following work commitments on EL- 391 (\$4 million), EL-401 (\$12.5 million), EL-397 (\$16.5 million) and EL-416 (\$1.5 million). EL-423 was acquired in June, 2004 and has an outstanding total work commitment of \$24.5 million associated with it. The Company's working interests range from 3.1% to 10.875% in the Central Mackenzie Valley acreage portfolio.

In Q-1, 2004 the Company paid 1% of the cost to drill the Summit Creek B-44 discovery well to retain a 5% interest in that well and in the EL-397 license. In Q-1, 2005 the Summit Creek B-44 well was production tested at rates of approximately 10,000 barrels of oil equivalent per day ("10,000 BOEPD") using a 6:1 gas to oil conversion factor.. A 3D seismic survey is being designed for the Summit Creek Wilma structure to generate additional data for selecting appraisal and development drilling locations. The Company anticipates the seismic program will commence in Q-3, 2005.

In Q-1, 2005 the Company paid 5% of the cost to drill the Sah Cho L-71 exploratory wildcat well on TDL parcel M-37 located within EL-397. The Sah Cho L-71 well encountered non-commercial hydrocarbons in zones tested that require further evaluation. It is anticipated that additional seismic will be undertaken on the Sah Cho Betty structure.

The Company's share of capital expenditures in the Flintstone Project for the period 2004 to March 31, 2005 was approximately \$2.5 million. The Company has budgeted \$1.6 million for the Company's share of 2D and 3D seismic costs for fiscal 2005 and is forecasting drilling costs of \$2.0 million in the first quarter of 2006 in the area.

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Management Discussion (continued)

Southern Northwest Territories
Hay River Area

In Q-1, 2005 the Company entered into a Memorandum of Understanding ("MOU") with the Katlodeeche First Nations ("KFN"). The MOU provides the Company with surface access to Hay River Reserve Lands and Katlodeeche traditional lands covering an area of approximately 1.9 million acres previously under a moratorium on exploration.

The MOU provides the Company with the right to acquire proprietary seismic data on KFN lands. The Company has the right to acquire sub-surface mineral rights on the Hay River Reserve (35,000 acres) but not on KFN Traditional Lands as these lands are subject to the Deh Cho land claim settlement process.

The MOU provides the framework for KFN to request a rights issuance with the Federal Government covering traditional lands. Should a call for bids be announced then all bids will be submitted on a competitive bid process, the highest bids will be awarded Exploration License(s).

The Company will incur 100% of all exploration and development costs on the KFN acreage to earn 95% of all net revenues; KFN will receive a 5% carried interest. Upon the Company recovering 135% of all capital expenditures all future net revenues will be shared IFR-50% and KFN-50%.

The Company has budgeted \$200,000 for geological and trade seismic acquisition in 2005.

SIDOX Pilot Project
Alderson Lower Mannville M2M Pool

The Company holds an option to acquire a 10-year Exclusive License for the patented SIDOX oil production enhancement technology. SIDOX is a relative permeability modifier that alters the mobility ratios of oil and water in sandstone reservoirs. In Q-2, 2004 the Company purchased a 100% interest in the Alderson Lower Mannville M2M and Ferguson Lower Mannville A oil pools for \$1.2 million. The pools were acquired to conduct SIDOX pilot projects.

In July 2004 phase one of the Sidox pilot projects commenced on eight wells with four wells treated down casing and four wells treated down tubing. Based on phase one results wells treated down tubing have reacted much better as confirmed by an oil rate increases of 35%. Phase two of the pilot project commenced in April, 2005; in phase two larger volumes of Sidox and load oil were injected down tubing in four wells in the Alderson oil pool.

In 2005 the Company has budgeted \$1.5 million to purchase additional wells for SIDOX testing, and \$450,000 for other costs associated with the SIDOX License and pilot project.

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ANNUAL RESULTS

Revenue and Pricing

The following table summarizes results for the years 2004, 2003 and 2002

	2004	2003	2002
Sales volumes – BOE/day	45	-	-
Oil Revenues, net	\$ 561,331	\$ -	\$ -
Net loss	\$ (3,374,948)	\$ (963,170)	\$ (170,701)
Net loss per share - basic	\$ (0.15)	\$ (0.10)	\$ (0.03)
- diluted	\$ (0.15)	\$ (0.10)	\$ (0.03)
Total assets	\$ 14,791,008	\$ 3,557,170	\$ 2,320,098
Working capital	\$ 9,954,156	\$ 1,369,487	\$ (62,328)
Flow through share obligations	\$ 3,990,480	\$ 323,350	\$ -

For the year ending December 31, 2004 the Company received gross oil and gas revenues of \$693,270 (2003, 2002 - \$0) and paid royalties of \$131,939 (2003, 2002 -\$0). Oil revenues, royalties and operating costs for the year ended December 31, 2004 can be attributed solely to properties acquired during 2004 for purposes of Sidox production testing.

Operating Costs

During 2004 the Company incurred operating expenses of \$411,930 (2003, 2002 - \$0). Operating costs per BOE remained relatively consistent during the year averaging \$25.00 per BOE throughout 2004. Operating costs were abnormally high during phase one of the Sidox pilot project as certain non-recurring expenditures were incurred during the research and development phase.

The Company is also generated interest income from short term investments of \$64,299 during 2004 (2003 – \$7,663, 2002 – \$11,663). Increase in interest income in 2004 is due to interest earned on investment of funds raised through financing activities during the year.

Depletion, Depreciation and Asset Retirement Costs

Depletion, depreciation at December 31, 2004 consists of depletion and depreciation of property and equipment of \$575,962 (2003 – 4,748; 2002 – 158,362) and a \$795,554 (2003, 2002 -\$0) impairment loss which represents the amount by which the carrying amount of capitalized costs related to producing properties in Alberta exceeds fair value of the reserves as estimated by reservoir engineers at December 31, 2004. The carrying value of properties in the exploration stage in the Northwest Territories which has been excluded from the depletion calculation is \$3,550,670 at December 31, 2004. A separate impairment test has been performed on these properties and no impairment exists at December 31, 2004. Also included in depletion and depreciation at December 31, 2004 is an impairment loss of \$64,169 (2003 – \$0; 2002 – \$156,166) related to write down to estimated net realizable value of costs incurred on unproven properties in which the Company has dropped its interests.

**International Frontier Resources Corporation
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ANNUAL RESULTS

General and administrative expenses

	2004	2003	2002
Investor relations	\$ 351,826	\$ 166,737	\$ -
Filing and transfer fees	55,151	205	12,787
Professional fees	73,210	55,334	47,704
Consulting fees - gross	249,166	124,551	20,758
Consulting fees - capitalized	(158,730)	(60,604)	-
Rent and office costs	<u>146,486</u>	<u>65,095</u>	<u>49,170</u>
	<u>\$ 717,109</u>	<u>\$ 351,318</u>	<u>\$ 130,419</u>

The most significant item included in General and administrative expenses for the year ending December 31, 2004 were expenses of \$351,826 (2003 - \$166,737) related to efforts to enhance shareholder awareness of the Company. In its current development stage, International Frontier is reliant upon investment capital and has incurred these costs to optimize understanding of the Company's operations amongst the investment community. During the year 2003, the Company incurred expenses of this nature totaling \$135,570 in the fourth quarter. These expenses were not incurred pursuant to an investor relations agreement and the Company is not under contract to undertake investor relations activities. Significant investor relations' expenses are not budgeted for 2005.

Other General and administrative expenses for the year ended 2004 totaled \$365,283 (2003- \$184,581). The increase in general and administrative costs is due to increased TSX-V filing fees, legal fees associated with private placements and additional staff costs associated with the increased activity of the Company.

Stock based compensation

The Company expenses stock compensation costs for directors, officers, employees and consultants. Stock based compensation costs increased from \$735,135 in 2003 to \$2,067,864 in for the year ended December 31, 2004 due to an increased number of options issued to officers, directors, employees and consultants during the year. The expense for 2004 reflects the Company's prospective adoption in the fourth quarter of 2003 of the change in accounting policy with respect to stock based compensation as described in Notes 2 and 3a) to the financial statements.

Net Loss

The Company had a net loss of \$3,374,948 or \$0.15 per share in 2004 as compared with a net loss of \$963,170 or \$0.10 per share in 2003. The Company's net loss is affected by items which are non-operational in nature. At December 31, 2004 these non-cash items included depletion and depreciation and accretion expense of \$1,456,689 (2003 - \$4,748) stock based compensation expense of \$2,067,864 (2003 - \$735,135), write off of investment of \$3,675 (2003 - \$Nil) and a future income tax recovery of \$662,594 (2003 - \$122,246) resulting in an adjusted net loss from operations at December 31, 2004 of \$509,314 (2003 - \$345,553).

**International Frontier Resources Corporation
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ANNUAL RESULTS

Liquidity capital resources and financing activities

The Company had working capital of \$9,954,156 at December 31, 2004. During 2004 the Company generated funds from financing activities of \$9,816,680 as follows:

- In June 2004, the Company completed a convertible redeemable debenture in the amount of \$975,000.
- In conjunction with a private placement occurring May 17, 2004 and closing July 19, 2004, the Company issued 6,064,000 units at a price of \$0.80 per unit for net proceeds of \$4,851,200.
- On October 26, 2004, the Company entered into a private placement for 2,530,000 flow through units at a price of \$1.35 per unit for net proceeds of \$3,415,500.
- On November 10, 2004, the Company entered into a non-brokered private placement for 410,700 flow through units at a price of \$1.40 per unit for net proceeds of \$574,980.

Funds raised in conjunction with the above were undertaken in order to fulfill a summer 2004 2D seismic program and the 2005 first quarter drilling program in the Central Mackenzie Valley in the Northwest Territories and to finance production acquisitions for and continued testing of Sidox Pilot Project. The Company's working capital at December 31, 2004 is expected to be sufficient to fund projected NWT exploration activities and expenditures related to the SIDOX Pilot Project. Capital expenditures expected in the NWT are projected to be approximate \$1.6 million to December 31, 2005 and \$2.0 million in the first quarter 2006. Other capital expenditures currently identified are forecasted to be \$2.1 million to December 31, 2005.

Financial Instruments

International Frontier does not have any commodity or financial instrument hedges. The Company carries various forms of financial instruments, all of which are recognized in International Frontier's audited annual financial statements at December 31, 2004. Unless otherwise denoted in the 2004 financial statements it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the these financial instruments. The fair values of financial instruments approximate their carrying value. The Company has no unrecognized gains or losses in its financial statements.

Investing Activities

Total capital expenditures for the year ended 2004 were \$3,741,311 (2003 - \$190,965), of which 29% (2003 - 100%) of these expenditures related to exploration activities in the Central Mackenzie River Valley. Operations in this area are expensive and of a high risk nature that could create conditions that could alter the plans of the Company and its partners. Further, should commercial quantities of petroleum and natural gas be proven to exist in the area, the timing of revenue generation is dependent on a variety of factors not within control of the Company.

ANNUAL RESULTS

Investing Activities (continued)

The Company's wholly owned subsidiary, Sidox Chemicals Canada Ltd. ("Sidox Canada"), is incurring property acquisition costs and testing costs, including the acquisition cost of Sidox. Sidox is a relative permeability modifier that is being tested on acquired properties that is intended to enhance oil production relative to water production from existing producing oil wells. To date, the Company has acquired two properties in southern Alberta at a cost of \$1,263,531, upon which it is testing Sidox. In addition to the property acquisitions, the Company has incurred \$484,120 in capital expenditures to replace equipment and prepare the properties for testing of the technology. Total capital expenditures attributed to the Sidox operation were \$1,266,812 during 2004 (2003 - \$14,201). International Frontier has secured an option to acquire Exclusive License Canadian distribution rights for the Sidox product after one year of testing and the payment of \$100,000 to the patent owner.

Obligations

Under the terms of the flow-through agreements undertaken in 2004 the Company had flow-through share spending obligations of \$3,990,480 at December 31, 2004. The Company had no debt at December 31, 2004. The Company has sufficient working capital and future cash flow to meet its obligations.

Related Party Transactions

Certain officers and directors provide professional, consulting and management services to the Company. The amounts paid to these officers and directors during the year ended December 31, 2004 were \$155,120 (2003 - \$92,887). Of the total consulting fees paid to related parties during the year, \$90,230 (2003 - \$43,942) was capitalized to Property and equipment at December 31, 2004.

On December 31, 2003, a company controlled by a director held the Company's convertible debenture in the amount of \$50,000 upon which interest of \$2,000 (2003 - \$4,000) was paid. In May of 2004 the convertible debenture was redeemed for a total of 111,111 shares of the Company.

Changes in Accounting Policies including initial adoption

During the fourth quarter of 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") as outlined in Handbook section 3870, "Stock-based Compensation and Other Stock-based Payments".

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") as outlined in Handbook section 3110, "Asset Retirement Obligations".

Effective January 1, 2004 the Company adopted CICA Accounting Guideline 16 "Oil and Gas Accounting - Full Cost".

See December 31, 2004 audited financial statements Note 3 "Change in Accounting Policy" for detailed discussion of the above mentioned accounting changes.

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ANNUAL RESULTS

Changes in Accounting Policies including initial adoption

Impact on Net Income of Change in Accounting Policies

	2004	2003	2002
(Decrease) in net earnings related to:			
Stock based compensation	\$(2,067,864)	\$ (735,135)	\$ -
Asset retirement obligations	(21,004)	-	-
Impairment test	<u>(795,554)</u>	<u>-</u>	<u>-</u>
Total impact on net earnings	<u>\$(2,884,422)</u>	<u>\$ (735,135)</u>	<u>\$ -</u>

OTHER ITEMS

Outstanding shares, options and warrants

The Company's share capital structure is as follows:

<u>As of:</u>	<u>December 31, 2004</u>	<u>April 5, 2005</u>
Common shares outstanding	32,006,580	34,961,318
Warrants outstanding	7,981,725	6,184,245
Options outstanding	2,810,000	3,140,000
Convertible debentures	<u>375,000</u>	<u>233,344</u>
Fully diluted	<u>43,173,305</u>	<u>44,518,905</u>

Subsequent to December 31, 2004:

- 2,635,000 Series "A" Warrants representing 1,317,500 shares of the Company and 1,278,200 Series "B" Warrants representing 639,100 shares of the Company were exercised in conjunction with a private placement occurring July 19, 2004.
- 226,470 Series "C" warrants issued in conjunction with private placements occurring on October 26, 2004 and December 23, 2004 were exercised.
- On February 11, 2005 the Company announced the issuance of 900,000 stock options to Directors and senior management under the Company's stock option plan. The options have an exercise price of \$1.85 per share.
- 405,000 options were exercised at \$0.45 per share and 75,000 options were exercised at \$0.25 per share.
- \$130,000 of convertible debentures were converted to 216,667 common shares
- On February 10, 2005, the Company announced that the Katlodeeche First Nations ("KFN") have signed a Memorandum of Understanding to form a joint venture with the Company to explore for oil and gas on Katlodeeche lands. Concurrent with reaching this agreement the Company issued 75,000 common shares of the Company to KFN on March 7, 2005, pursuant to the terms and conditions of the Memorandum of Understanding.

Additional details on the shares, options and warrants outstanding at December 31, 2004 are available in the notes to the December 31, 2004 audited consolidated financial statements.

OTHER ITEMS

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

Reserve estimates are a key component in the calculation of depletion, depreciation and accretion costs. A change in reserve quantity estimates will result in a corresponding change in DD&A costs. In addition, if capitalized costs are determined to be in excess of the calculated ceiling, which is based on reserve quantities and values, the excess must be written off as an expense.

Asset retirement costs are estimated, discounted and carried on the balance sheet as a liability. A change in estimated future asset restoration costs will change the liability on the balance sheet and the amortization of the asset retirement costs included in property and equipment.

QUARTERLY RESULTS

Fourth Quarter

The following summarized the results for the three months ended December 31, 2004 compared to the same period in 2003.

Revenues and operating costs

For the three month period ending December 31, 2004 the Company received gross oil and gas revenues of \$225,320 (2003 - \$0) and paid royalties of \$43,806 (2003 -\$0). Net Revenues for the three months ended December 31, 2004 decreased from net revenues for the three months ended September 30, 2004 by 31% due to lower realized prices due to rising quality differentials and decreased production volumes in the fourth quarter. Production decreased 28% in the fourth quarter of 2004 as a result of production declines associated with Sidox testing.

During the three months ended December 31, 2004, the Company incurred operating expenses of \$137,006 (2003 - \$0). Operating costs per BOE of \$24.45 in the fourth quarter of 2004 decreased marginally as compared to operating costs per BOE of \$27.15 for the three months ended September 30, 2004 due to certain non-recurring Sidox operating costs incurred in the third quarter of 2004.

The revenues net of royalties and operating costs referred to are being generated solely from properties acquired for purposes of testing Sidox as previously described. The Company has also generated interest income from short term investments of \$43,292 for the three months ended December 31, 2004 as compared to \$15,029 for the third quarter ended September 30, 2004, an increase of 188% attributed to investment of funds raised with respect to private placement share offerings in the fourth quarter.

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QUARTERLY RESULTS

Depletion and depreciation

Depletion and depreciation increased by 180% to \$941,844 in the fourth quarter of 2004 as compared to \$336,920 for the three months ended September 30, 2004. The increase in DD&A in the fourth quarter of 2004 as compared to the third quarter of 2004 is mainly due to recognition of a \$795,554 (2003, 2002 –\$0) impairment loss which represents the amount by which the carrying amount of capitalized costs related to producing properties in Alberta exceeds fair value of the reserves as estimated by reservoir engineers at December 31, 2004. The carrying value of properties in the exploration stage in the Northwest Territories which has been excluded from the depletion calculation is \$3,550,670 at December 31, 2004. A separate impairment test has been performed on these properties and no impairment exists at December 31, 2004. Also included in depletion and depreciation in the three months ended December 31, 2004 is an impairment loss of \$64,169 (2003 – \$0; 2002 – \$156,166) related to write down to estimated net realizable value of costs incurred on unproven properties in which the Company has dropped its interests. The overall increase in depletion and depreciation as compared to the same period in 2003 is due to the fact that there were no producing properties until the second quarter of 2004.

General and administrative expenses

General and administrative expenses of \$172,094 were incurred in the fourth quarter of 2004 (\$246,060 in 2003) a 30% decrease as compared to the same quarter in 2003. During the three months ended December 31, 2003, the Company incurred expenses totaling \$135,570 related to the efforts to enhance shareholder awareness of the Company, there were no significant expense of this nature incurred in the fourth quarter of 2004. An increase in general and administrative expenses of 133% for the three months ended December 31, 2004 as compared to the third quarter of 2004 can be attributed to audit fees incurred in the fourth quarter and increased filing fees related to private placements undertaken in the three months ended December 31, 2004.

Stock based compensation

Stock based compensation costs increased from \$735,135 in the fourth quarter of 2003 to \$2,009,150 in the same period in 2004 due to an increased number of options issued to officers, directors, employees and consultants in the fourth quarter of 2004.

Net Loss

The Company had a net loss for the three month period ending December 31, 2004 of \$2,540,027 or \$0.15 per share as compared with a net loss of \$875,162 or \$0.10 per share in 2003. The Company's net loss is affected by items which are non-operational in nature. For the quarter ending December 31, 2004 these non-cash items included depletion and depreciation and accretion expense of \$946,966 (2003 - \$2,993) stock based compensation expense of \$2,009,150 (2003 - \$735,135), write off of investment of \$3,675 (2003 - \$Nil) and a future income tax recovery of \$507,702 (2003 - \$99,524) resulting in an adjusted net loss from operations at December 31, 2004 of \$87,938 (2003 - \$236,558).

International Frontier Resources Corporation
Management's Discussion and Analysis
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Summary of quarterly results

The quarterly results have been prepared without audit or review by the Company's independent external auditors. The following table summarized the Company's financial and operating highlights for the past eight quarters:

Quarter ended	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Sales volumes – BOE/day	-	33	68	60
Revenues,net	1,234	121,469	278,121	224,806
Net loss	(331,059)	(265,074)	(339,892)	(2,540,027)
Net loss per share - basic	(0.02)	(0.01)	(0.01)	(0.15)
- diluted	(0.02)	(0.01)	(0.01)	(0.15)
Total assets	3,552,399	7,435,380	10,489,813	14,791,008
Working capital	1,069,415	2,449,190	5,222,766	9,954,156

	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Sales volumes – BOE/day	-	-	-	-
Revenues,net	1,781	1,995	2,085	1,802
Net loss	(16,579)	(43,187)	(28,242)	(875,162)
Net loss per share – basic	(0.00)	(0.00)	(0.00)	(0.10)
- diluted	(0.00)	(0.00)	(0.00)	(0.10)
Total assets	2,302,127	2,376,979	2,582,595	3,577,170
Working capital	(20,599)	33,016	164,259	1,369,487

OPERATIONAL AND OTHER BUSINESS RISKS

Need to Replace and Grow Reserves

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

The business of discovering, developing, or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the ability of International Frontier to make the necessary capital investments to maintain and expand its oil and natural gas reserves may be impaired.

There can be no assurance that International Frontier will be able to find and develop or acquire additional reserves to replace and grow production at acceptable costs.

Exploration, Development and Production Risks

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

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

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

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

Reserve Estimates

The production forecast and recoverable estimates contained in International Frontier's engineering report are only estimates and the actual production and ultimate recoverable reserves from the properties may be greater or less than the independent estimates of McDaniel & Associates Consultants Ltd.

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived thereof, including many factors that are beyond the control of International Frontier. The reserve and cash flow information set forth herein represent estimates only. The reserves and estimated future net cash flow from the assets of International Frontier have been independently evaluated effective December 31, 2004 by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditure, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of International Frontier. Actual production and cash flows derived thereof will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived thereof contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Volatility of Oil and Natural Gas Prices

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

International Frontier uses the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed on a quarterly basis for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows.

Operational Hazards and Other Uncertainties

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

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

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

Competition

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

Key Personnel

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

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Environmental Risks

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

Other information

Additional information regarding International Frontier Corporation's reserves and other data is available on SEDAR at sedar.com.

INTERNATIONAL FRONTIER RESOURCES CORPORATION
REPORT ON RESERVE DATA AND OTHER INFORMATION (NI 51-101)
As of December 31, 2004
(Cdn \$000's)

STATEMENT OF RESERVES DATE AND OTHER OIL AND GAS INFORMATION

Independent Reserves Evaluator

The oil and natural gas reserves of International Frontier Resources Corporation were evaluated by McDaniel and Associates Consultants Ltd. (McDaniels's) qualified independent reserve evaluators retained by the Board of Directors to evaluate the Company's oil and natural gas reserves. The following report comes from their report effective December 31, 2004 in a report dated February 22, 2005.

The following tables set forth certain information relating to the oil and natural gas reserves of the Corporation's properties and the present value of the estimated future net cash flow associated with such reserves as at December 31, 2004.

Certain tables which are derived by utilizing forecast prices and costs are presented with December 31, 2004 pricing assumptions.

The information set forth below is prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in the National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). All evaluations and review of future net cash flows are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flows shown below are representative of the fair market value of the Corporation's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil, NGL's and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGL's and natural gas reserves may be greater than or less than the estimates provided herein.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A Report of Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 which includes certain information estimated using forecast prices and costs based on December 31, 2004 pricing assumptions.

Appendix B Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3.

Appendix C Definitions used for reserve categories.

International Frontier Resources Corporation
Total Company Reserves and Net Present Value
Forecast Prices as of December 31, 2004
Total of All Areas

Table B

Remaining Reserves

Reserves Classification	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids		Sulphur	
	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)	Gross (mdbl)	Net (mdbl)	Gross (mlt)	Net (mlt)
Proved Developed Producing	115.8	93.9								
Total Proved	115.8	93.9								
Probable	34.0	27.5								
Total Proved plus Probable	149.8	121.4								

Net Present Values of Future Net Revenue

Reserves Classification	After Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	@0.5%	@5.0%	@10.0%	@15.0%	@20.0%	@0.5%	@5.0%	@10.0%	@15.0%	@20.0%
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)
Proved Developed Producing	0.76	0.70	0.64	0.60	0.56	0.50	0.46	0.43	0.40	0.38
Total Proved	0.76	0.70	0.64	0.60	0.56	0.50	0.46	0.43	0.40	0.38
Probable	0.33	0.24	.019	0.15	0.12	0.22	0.16	0.12	0.10	0.08
Total Proved plus Probable	1.09	0.94	.083	0.75	0.68	0.72	0.63	0.56	0.50	0.46

International Frontier Resources Corporation
Undiscounted Future Net Revenue
Forecast Prices as of December 31, 2004
Total Reserves

Table C

	Sales Revenue (1) M\$	Royalties (2) M\$	Operating Costs M\$	Total Development Costs M\$	Well Abandonment Costs M\$	ARTC M\$	Future Net Revenue Before Tax M\$	Income Taxes M\$	Future Net Revenue After Tax M\$
Total Proved Reserves	4,294	846	2,178		515		755	259	497
Total Proved & Probable Reserves	5,591	1,100	2,879		522		1,090	370	720

(1) Sales Revenue includes all non-producing income.

(2) Royalties include any net profits interests paid.

International Frontier Resources Corporation
Oil & Gas Reserves and Net Present Value by Production Group
Forecast Prices as of December 31, 2004
Total Reserves

Table D

Reserve Group by Category	Reserves						NPV of FNR Before Income Taxes (4) (5)			Unit Values(2) \$/bbl \$/mcf	BOEs(3) (Value Conversion)
	Oil		Gas (1)		NGL		0%	10%	15%		
	Gross Mbbbl	Net mdbl	Gross mmcf	Net mmcf	Gross mdbl	Net mdbl	M\$	M\$	M\$		
Light and Medium Oil											
Proved Producing	116	94	-	-	-	-	755	643	599	6.84	-
Total Proved	116	94	-	-	-	-	755	643	599	6.84	-
Probably Additional	34	28	-	-	-	-	334	185	147	6.73	-
Total Proved & Probable	150	121	-	-	-	-	1,090	828	749	6.82	-

- (1) Gas reserves included in Light and Medium Oil and Heavy Oil are Solution Gas Reserves Only.
(2) Unit values are calculated using the 10% discount rate divided by the Major Product Type Net reserves for each group.
(3) BOEs are calculated by dividing the unit values of Light and Medium Oil reserves by the unit values of the other major product type reserves for each reserve classification.
(4) Processing income is included where applicable.
(5) ARTC is not included.

International Frontier Resources Corporation
Future Capital and Abandonment Costs
Forecast Prices as of December 31, 2004
Total Reserves

Table E

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Remaining	Total
Capital Cost Forecast (M\$)																	
Total Proved																	
Undiscounted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discounted @ 10.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Proved & Probable																	
Undiscounted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discounted @ 10.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Cost Forecast (M\$)																	
Total Proved																	
Undiscounted	-	63	32	98	67	68	69	-	-	-	37	38	-	-	-	44	515
Discounted @ 10.0%	-	55	25	70	43	40	37	-	-	-	14	13	-	-	-	7	305
Total Proved & Probable																	
Undiscounted	-	63	32	98	67	68	-	-	72	-	-	-	39	40	-	45	522
Discounted @ 10.0%	-	55	25	70	43	40	-	-	32	-	-	-	12	11	-	5	293

INTERNATIONAL FRONTIER RESOURCES CORPORATION
REPORT ON RESERVE DATA AND OTHER INFORMATION (NI 51-101)
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RECONCILIATION OF CHANGES IN RESERVES AND FUTURE NET REVENUE

Reserves Reconciliation

International Frontier Resources had no recognized reserves in 2003 and as such, no reserves reconciliation has been calculated.

Additional Information

Abandonment and reclamation costs

The reserve reports included estimated abandonment costs of \$522,000 for proved plus probable oil and gas properties. The Company has sufficient resources to meet these obligations.

Future development costs

There is no future development costs included in the McDaniel & Associates engineering report dated December 31, 2004.

2004 Production estimates

The reserve report estimates production from proved reserves at December 31, 2004 will average 55 BOE per day in 2005.

Areas of operation

Northwest Territories, Canada

The Company is a natural resource company engaged in the acquisition, exploration and development of oil and gas properties. The Company generates and acquires oil and gas prospects in under-explored frontier basins, and as of December 31, 2004 the Company holds interests ranging from 3.1% to 10.875% in approximately 1.1 million gross acres in the Central Mackenzie Valley area of the Northwest Territories.

Sidox Pilot Project

The Company holds an option to acquire a 10-year Exclusive License for the patented Sidox oil production technology. Sidox is a relative permeability modifier that alters the mobility ratios of oil and water in sandstone reservoirs. In Q-2, 2004 the Company purchased a 100% interest in the Alderson Lower Manville M2M and Ferguson Lower Manville A pools for \$1.2 million. The pools were acquired to conduct Sidox pilot projects. In July 2004 phase one of the Sidox pilot projects commenced on the Alderson and Ferguson properties, at Alderson oil production rates increased by an average 35% in phase one of the pilot project. The reserves associated with the Alderson and Ferguson properties were evaluated by McDaniel's and Associates as of December 31, 2004.

Properties with no attributed reserves

As of December 31, 2004 no reserves have been assigned to the Company's properties in the Central Mackenzie Valley, Northwest Territories. The NWT properties are described in more detail below.

EL-397 NWT ACQUISITION

On July 31, 2000, the Consortium was successful in bidding for Parcel 1, designated as EL-397 granted by the Minister of Indian Affairs and Northern Development of Canada. EL-397 covers approximately 342,000 acres located in the Central Mackenzie Valley area of the Northwest Territories.

INTERESTS

As of December 31, 2004 working interest in EL-397 are held as follows:

Northrock Resources Ltd. – 32.50%
Husky Oil Operations Limited – 29.4775%
EOG Resources Canada Ltd. – 26.3975%
International Frontier Resources Corporation – 5.00%
Pacific Roderia Ventures Inc – 6.625%

Work Program

In Q-1, 2004 the Summit Creek (Wilma) B-44 well was drilled, logged, drill stem tested and cased to a total depth of 3,065 meters. The Company paid 1% of approximately \$19,000,000 (\$190,000 net) to retain a 5% interest in the B-44 well and in EL-397.

TERM

EL-397 has a primary term of four years commencing August 2000, EL-397 has been extended into second term of four years commencing August 2004.

WORK COMMITMENT

The work commitment of \$16,580,000 has been fulfilled on EL-397.

REFUNDABLE DEPOSIT

The refundable deposit of \$4,145,000 has been returned to the Consortium and the Company's letter of credit for \$207,250 has been refunded.

HISTORY

The Consortium has spent approximately \$16,000,000 to acquire 2D seismic on EL-397 as of December 31, 2004.

As of December 31, 2004 the consortium has spent approximately \$37,000,000 to drill, completed and production test the Summit Creek B-44 discovery well located on the Wilma structure located within EL-397.

In Q-1, 2005 the Summit Creek B-44 well was production tested, the B-44 well flowed approximately 10,000 barrels of oil equivalent per day from two perforated intervals in the Devonian formation.

The Company's interpretation of 2D seismic indicates up to an additional eight un-drilled structures exist on EL-397.

As of December 31, 2004 there are no reserves attributed to EL-397.

TDL Freehold Lands, NWT

Pursuant to a Freehold Lease agreement dated April 29, 1998 between the Company, Tulita and Burstall Ward as trustee, the Company was granted a 100% working interest in approximately 100,000 acres of Freehold Lands in the Central Mackenzie Valley area of the Northwest Territories (the "TDL Freehold Lands"). The Consortium paid \$560,000 to earn the TDL Freehold Lands which are subject to a 15% Lessor Royalty at the wellhead, all costs past the wellhead to be shared by the Consortium (85%) and the lessor (15%). In addition, the Consortium granted Tulita Land Corporation ("Tulita") a 5% net profits interest on the Tulita Freehold Lands and certain portions covering surface lands owned by the Sahtu First nations within EL-397, EL-423, and EL-416.

Land Description

M-32, M-33, M-34, M-35 and M-39

Northrock Resources – 32.50%
International Frontier – 10.875%
Pacific Roderia – 6.625%
Anadarko Canada – 32.50%
EOG Resources – 17.505

M-29

Northrock Resources – 25%
International Frontier – 10.875%
Pacific Roderia – 6.625%
Anadarko Canada – 32.50%
EOG Resources – 17.50%
Duvernay -7.50%

M-37

Northrock Resources – 32.50%
International Frontier – 5.00%
Pacific Roderer – 6.625%
EOG Resources – 23.3750%
Husky Oil Operations – 32.50%

M-36 & M-38

Northrock Resources – 27.6850%
International Frontier – 4.2593%
Pacific Roderer – 5.6436%
Anadarko Canada – 32.50%
EOG Resources – 19.9121%
Husky Oil – 10.00%

BENEFITS PLAN AND ACCESS AGREEMENT

The Consortium entered into a benefits plan and access agreement with Tulita, Ernie McDonald Land Corporation and Fort Norman Metis Land Corporation, which provides for the Sahtu Dene and Metis to bid for any service contracts relating to the exploration and development of the Tulita Freehold Lands and EL-397, EL-423 and EL-416 and for the Consortium to provide training and employment opportunities to the Sahtu Dene and Métis. The access agreement covers TDL Freehold lands and EL-397.

TERM

The Freehold Lease has a term of eight years, expiring on April 29, 2006.

WORK COMMITMENT

There are no work commitments set out in the Freehold Lease and Grant.

REFUNDABLE WORK DEPOSIT

There is no refundable work deposit on the Freehold Lease and Grant.

HISTORY

The TDL Freehold Lease is an exploration property, there are no reserves attributed to this property. As of December 31, 2004, the Consortium has spent approximately \$1,500,000 to acquire the TDL Freehold Lease, areomag and 2D seismic.

There are no reserves attributed to the TDL Freehold leases.

EL-401, NWT

Pursuant to an agreement dated August 28, 2000, EOG granted Frontier a 90-day option to participate in an exploration program on EL-401. The license was awarded at the 2000 Central Mackenzie Valley call for bids to EOG (50%), Anadarko (25%) and Northrock (25%) for a work commitment of \$12,760,000. On July 16, 2001, the Company elected to participate in the exploration program covering EL-401 and the Company paid 4.66% of the \$12,760,000 work commitment by drilling the Devo Creek B-44 well (D&A) to earn a 3.10% interest in EL-401.

INTERESTS

As of December 31, 2004 working interests in EL-401 are held as follows:

EOG Resources Canada– 45% (operator)
Anadarko Canada – 25%
Northrock Resources – 17.50%
Durvenay – 7.50%
International Frontier – 3.10%
Pacific Roderia – 1.90%

TERM AND WORK COMMITMENT

The primary term of the License expires on August 1, 2004 and the secondary term expires on August 1, 2008. The Company has not lodged a work deposit and is not entitled to a proportionate share of the refundable deposit on EL-401. Subsequent to award of the License the Consortium relinquished 195,000 acres and retained 125,000 acres which are now in the second term of the license.

HISTORY

EL-401 is an exploration property and there are no reserves attributed to this property. As of December 31, 2004 the Consortium has spent approximately \$13,000,000 to acquire 2D seismic and for the drilling of the Devo Creek P-45 dry hole. As of December 31, 2004 the Company has incurred approximately 4.66% of \$13,000,000 in expenditures on EL-401.

EL-416, NWT

ACQUISITION

The Consortium acquired EL-416 on September 8th, 2001 by submitting a bid in respect of parcel 6 for a work commitment bid of \$1,526,430. EL-416 consists of approximately 199,000 acres.

INTERESTS

As of December 31, 2004, working interests in EL-416 are held as follows:

Northrock Resources – 22.8700%
Anadarko Canada– 32.50%
EOG Resources Canada – 12.32%
International Frontier – 7.65%
Pacific Rodera – 4.66%
Husky Oil – 20.00%

TERM

EL-416 has a term of eight years, commencing September 18, 2001; the primary term expires on September 18, 2005.

WORK REQUIREMENT

The Consortium is required to drill one exploratory well prior to the end of the first four-year term period as a condition to obtain tenure to the second four-year term. Failure to drill a well on the subject lands by the end of the first four year term will result in the termination of the EL-416 License and forfeiture of any remaining work deposit.

REFUNDABLE WORK DEPOSIT

The Consortium members have each posted a letter of credit for their respective share of a \$381,500 work deposit. A cash refund against the work deposit will be made on the basis of 25% of the allowable expenditures, such that for every \$1.00 in expenditures, \$0.25 of the work deposit will be refunded. Any work deposit balance remaining at the end of the first four-year term will be forfeited. In Q-1, 2005 the work commitment on EL-416 was fulfilled and a refund of the \$381,500 work deposit will be returned to members of the consortium.

HISTORY

EL-416 is an exploration property and there are no reserves attributed to this property. As of December 31, 2004 the Consortium has spent approximately \$2,000,000 to acquire 2D seismic on EL-416. Subsequent to grant of the license the Consortium entered into an agreement with Husky whereby Husky earned a 20% interest in EL-416 by drilling, testing, completing and or abandoning the Summit Creek B-44 well located on EL-397.

EL-423 NWT

On June 7, 2004 EL-423, which consists of approximately 226,500 acres, was awarded to the Consortium for a work commitment of \$24,800,000.

INTERESTS

Northrock Resources – 32.50%
Husky Oil – 29.48%
EOG Resources – 26.4%
International Frontier – 5%
Pacific Roderia – 6.62%

TERM

EL-423 has a term of eight years commencing June 2004, the primary term expires in June 2008 and the second term expires June 2012.

WORK COMMITMENT

The Consortium is required to drill one exploratory well prior to the end of the first four year term to obtain tenure to the second four year term. Failure to drill a well in the first four year term will result in termination of EL-423 and forfeiture of any remaining work deposit.

REFUNDABLE WORK DEPOSIT

The Consortium members have each posted a letter or credit for their respective share of a \$6,200,000 work deposit (IFR net \$310,000). A cash refund against the work deposit will be made on the basis of 25% of the allowable expenditures, such that for every \$1.00 in expenditures, \$0.25 of the work deposit will be refunded. Any work deposit balance remaining at the end of the first four year term will be forfeited.

HISTORY

EL-423 is an exploration property and there are no reserves attributed to this property. As of December 31, 2004 the consortium has not incurred any allowable expenditure on EL-423.

EL-391, NWT

EL-391 was relinquished in 2004 and the Company's letter of credit for annual rentals in the amount of approximately \$36,500 was called by the Department of Indian and Northern Affairs.

Tax Horizon

International Frontier Resources Corporation has approximately \$4,621,728 of tax pools available for future deduction. The Company's future net revenues at December 31, 2004 for proved and probable reserves are \$1,090,000 using forecast prices and costs included in the McDaniel report dated December 31, 2004. The Company does not expect to pay income taxes based on the net future revenues at December 31, 2004.

Forward Contracts

The Company does not have any product price hedges or forward contracts at December 31, 2004.

**APPENDIX A
FORM 51-101f2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR**

Report on Reserves Data

**Re: Form 51-101F2
Report on Reserves Data by and Independent Qualified Reserves Evaluator
of International Frontier Resources Corporation (the "Company")**

Dear Sir:

To the Board of Directors of International Frontier Resources Corporation (the "Company"):

- 1) We have evaluated the Company's reserves data as at December 31, 2004. The reserves data consists of the following:
 - a) Proved and proved plus probable oil and gas reserves estimates as at December 31, 2004 using forecast prices and cost and the relate estimated future revenue; and
 - b) Proved and proved plus probable oil and gas reserves estimated as at December 31, 2004 using constant prices and costs and the related estimate future net revenue.
- 2) The reserves data area the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

- 3) Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
- 4) The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to prove plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended December 31,

2004, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue \$M (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
December 31, 2004	Canada		828		828

- 5) In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
- 6) We have no responsibility to update our report for events and circumstances occurring after the preparation date.
- 7) Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

APPENDIX B
FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Management of **International Frontier Resources Corporation**. (the "**Corporation**") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) Proved and Proved plus probable oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and
 - (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2004 using constant prices and costs; and
 - (ii) the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the Board of Directors of the Corporation has:

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the Board of Directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee approved:

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluator on reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) "Pat Boswell"

Pat Boswell
President & Chief Executive Officer

(signed) "Mark Powell"

Mark Powell
Director

(signed) "Jihad Shibley"

Jihad Shibley
Director, Chairman of Reserve Committee

(signed) "Bill McNaughton"

Bill McNaughton
Director

April 21, 2005

APPENDIX C DEFINITIONS USED FOR RESERVE CATEGORIES

Reserves estimates have been prepared in accordance with standards contained in the Canadian Oil and Gas Evaluation (COGE) Handbook. The following reserves definitions are set out by the Canadian Securities Administrators in National Instrument 51-101 (NI51-101; in Part 2 of Appendix 1 to Companion Policy 51-101CP) with reference to the COGE Handbook.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward based on:

- ❖ analysis of drilling, geological, geophysical and engineering data;
- ❖ the use of established technology;
- ❖ specified economic conditions¹, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

Proved Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable Reserves

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Possible Reserves

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5 of the COGE Handbook.

Development and Production Status

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories.

¹ For purposes of NI 51-101, the key economic assumptions will be the prices and costs used in the estimate, namely:
(a) *constant prices and costs as at the last day of a reporting issuer's financial year; or*
(b) *forecast prices and costs*

Developed Reserves

Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Developed Producing Reserves

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed Non- Producing Reserves

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

Undeveloped Reserves

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented.) Reported Reserves should target the following levels of certainty under a specific set of economic conditions:

- ❖ at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;

- ❖ at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves;
- ❖ at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Addition clarification of certainty levels associated with *reserves* estimates and the effect of aggregation is provided in Section 5.5.3 of the *COGE Handbook*.

Incorporation of these guidelines means that total corporate proved reserves reflect a conservative estimated and proved plus probable reserves reflect a current “best estimate” of the oil and gas quantities which will be recovered.