

**International Frontier Resources Corporation**  
**Consolidated Interim Financial Statements**

March 31, 2005

## Contents

	<u>Page</u>
Notice to reader	1
Consolidated Interim Balance Sheets	2
Consolidated Interim Statements of Loss and Deficit	3
Consolidated Interim Statements of Cash Flows	4
Notes to the Consolidated Interim Financial Statements	5-16

---

**International Frontier Resources Corporation**  
**Consolidated Financial Statements**  
**For the three month interim period ended**  
**March 31, 2005**

(unaudited – prepared by Management)

---

National Instrument 51-102 Notice

The consolidated financial statements of International Frontier Resources Corporation (“the Company”) as at March 31, 2005 have been compiled by management.

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

---

# International Frontier Resources Corporation

## Consolidated Interim Balance Sheets

(unaudited – prepared by Management)

	March 31, 2005	December 31, 2004
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 10,854,777	\$ 9,961,732
Receivables	1,374,290	195,095
Prepays	<u>30,337</u>	<u>12,273</u>
	12,259,404	10,169,100
Restricted cash (Note 4)	351,500	351,500
Property and equipment (Note 5)	<u>5,104,146</u>	<u>4,270,408</u>
	<u>\$ 17,715,050</u>	<u>\$ 14,791,008</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 94,007	\$ 214,944
Asset retirement obligations (Note 6)	255,460	232,752
Future income taxes (Note 7)	647,790	668,488
Convertible debentures (Notes 8)	<u>91,563</u>	<u>216,860</u>
	<u>1,088,820</u>	<u>1,333,044</u>
<b>Shareholders' Equity</b>		
Share capital (Note 9b)	18,896,399	15,475,755
Contributed surplus	3,788,159	2,588,519
Equity component of convertible debentures	3,437	8,140
Warrants (Note 9d)	10	10
Deficit	<u>(6,061,775)</u>	<u>(4,614,460)</u>
	<u>16,626,230</u>	<u>13,457,964</u>
	<u>\$ 17,715,050</u>	<u>\$ 14,791,008</u>

---

Contingent liabilities (Note 12)

Subsequent events (Note 16)

On behalf of the Board

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

See accompanying notes to the consolidated financial statements.

---

## International Frontier Resources Corporation

### Consolidated Interim Statements of Loss and Deficit

(unaudited – prepared by Management)

Three months ended March 31, 2005 2004

---

Revenue		
Oil sales	\$ 173,181	\$ -
Less: gross overriding royalties	<u>(44,438)</u>	<u>-</u>
	128,743	-
Interest and other income	<u>57,652</u>	<u>1,234</u>
	<u>186,395</u>	<u>1,234</u>
Expenses		
Field operating costs	83,181	-
Depletion and depreciation	32,892	2,461
Accretion of asset retirement obligations (Note 6)	6,171	-
General and administration	104,872	301,214
Stock based compensation	1,423,260	58,714
Interest and bank charges	<u>4,032</u>	<u>16</u>
	<u>1,654,408</u>	<u>362,405</u>
Loss before income taxes	(1,468,013)	(361,171)
Future income tax recovery (Note 7)	<u>(20,698)</u>	<u>(30,112)</u>
Net loss	\$ <u>(1,447,315)</u>	\$ <u>(331,059)</u>
<b>Net loss per share</b>		
Basic (Note 10)	\$ <u>(0.04)</u>	\$ <u>(0.02)</u>
Diluted (Note 10)	\$ <u>(0.04)</u>	\$ <u>(0.02)</u>
Deficit, beginning of year	\$ (4,614,460)	\$ (1,239,512)
Net loss	<u>(1,447,315)</u>	<u>(331,059)</u>
Deficit, end of year	\$ <u>(6,061,775)</u>	\$ <u>(1,570,571)</u>

---

See accompanying notes to the consolidated financial statements.

---

## International Frontier Resources Corporation

### Consolidated Interim Statements of Cash Flows

(unaudited – prepared by Management)

Three months ended March 31

2005

2004

#### Operating

Net loss	\$ (1,447,315)	\$ (331,059)
Depletion and depreciation	32,892	2,461
Accretion of asset retirement obligations	6,171	-
Stock based compensation	1,423,260	58,714
Gain on sale of investment	(4,746)	-
Future income tax recovery	<u>(20,698)</u>	<u>(30,112)</u>
	<u>(10,436)</u>	<u>(299,996)</u>
Change in non-cash operating working capital (Note 14)	<u>(162,580)</u>	<u>81,973</u>
	<u>(173,016)</u>	<u>(218,023)</u>

#### Investing

Additions to petroleum and natural gas properties	(695,346)	(344,576)
Change in non-cash investing working capital (Note 14)	<u>(1,102,489)</u>	<u>203,613</u>
	<u>(1,797,835)</u>	<u>(140,963)</u>

#### Financing

Shares issued for cash	2,917,025	324,500
Change in non-cash financing working capital (Note 14)	<u>(53,130)</u>	<u>(15,855)</u>
	<u>2,863,895</u>	<u>308,645</u>

Net increase in cash and cash equivalents 893,044 (50,341)

Cash and cash equivalents,

Beginning of year	<u>10,313,233</u>	<u>1,320,290</u>
End of year	\$ <u>11,206,277</u>	\$ <u>1,269,949</u>

Cash and cash equivalents are represented by:

Cash and temporary investments	\$ 10,854,777	\$ 977,523
Restricted cash	<u>351,500</u>	<u>292,426</u>
	\$ <u>11,206,277</u>	\$ <u>1,269,949</u>

---

See accompanying notes to the consolidated financial statements.

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### 1. Nature of operations

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

The costs associated with the acquisition and development thereon to date is recognized in these 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. Significant accounting policies

The consolidated financial statements include the accounts of International Frontier Resources Corporation and its wholly owned subsidiary Sidox Chemicals Canada Ltd. The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves in Canada.

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

### 3. Change in accounting policies

- a) Effective January 1, 2004, the Company retroactively adopted the new Canadian accounting standard as outlined in CICA Handbook section 3110 "Asset Retirement Obligations". Prior to January 1, 2004, the Company had not incurred any obligation for restorations. As such, the adoption of the new standard did not effect any period prior to 2004.
- b) Effective January 1, 2004, the Company adopted CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost". The new guideline modifies the way the impairment test is performed and requires cost centres be tested for recoverability using undiscounted future cash flows from proved reserves plus the cost of undeveloped properties. When the carrying amount of the asset is not recoverable, the asset would be written down to its fair value. Fair value is determined to be discounted cash flow plus the cost of undeveloped properties. Discounted cash flow is calculated using a present value technique that incorporates proved plus probable reserves, prices that are consistent with those used by the Company in developing other corporate information and a risk free interest rate.

---

## International Frontier Resources Corporation

### Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

#### 3. Change in accounting policies (continued)

- c) Effective January 1, 2004, the Company adopted the standards outlined in CICA Handbook section 3063, "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of any impairment of long-lived assets comprised of office equipment. An impairment is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company estimates fair value based upon current prices for similar assets. The accounting policy has been adopted prospectively and had no impact on the consolidated financial statements.

#### 4. Restricted cash

As at March 31, 2005, the Company has provided an assignment of cash totalling \$41,500 (2004 - \$41,500) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 416 (see Note 12).

As at March 31, 2005, the Company has provided an assignment of cash totalling \$310,000 (2004 - \$310,000) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 423 (see Note 12).

#### 5. Property and equipment

##### March 31, 2005

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 6,673,855	\$ 1,615,190	\$ 5,058,665
Office furniture and equipment	76,209	44,929	31,280
Options	<u>14,201</u>	<u>-</u>	<u>14,201</u>
	<u>\$ 6,764,265</u>	<u>\$ 1,660,119</u>	<u>\$ 5,104,146</u>

##### 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>

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### 5. Property and equipment (continued)

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 \$4,056,058 (2004 - \$4,899,473) have no cost basis for income tax purposes. During the three months ended March 31, 2005, \$19,125 (2004 - \$59,043) of overhead expenses directly related to exploration and development activities were capitalized and \$4,473 (2004 - \$38,594) of interest expense was capitalized. Also during the three months ended March 31, 2005 \$40,885 (2004 - \$549,228) of expenses incurred in conducting a pilot project to test the Sidox product were capitalized to petroleum and natural gas properties.

As at March 31, 2005, undeveloped properties with a cost of \$4,270,440 (2004 - \$3,550,670) included in petroleum and natural gas properties have not been subject to depletion.

As at March 31, 2005 a \$nil (2004 - \$859,273) impairment of petroleum and natural gas assets has been recorded to reflect the excess carrying amount of assets over fair value of future reserves. This amount is included in depletion and depreciation on the consolidated statements of loss and deficit.

Included in property and equipment is the cost of securing an option to acquire an exclusive licensing agreement for the Sidox product in Canada. 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.

### 6. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2005 is approximately \$410,000 (2004 - \$360,000). A credit-adjusted risk-free rate of 9 % was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	Three months ended <u>March 31, 2005</u>	Year ended <u>December 31, 2004</u>
Balance, beginning of period	\$ 232,752	\$ -
Liabilities incurred	16,537	211,748
Liabilities settled	-	-
Accretion expense	<u>6,171</u>	<u>21,004</u>
Balance, end of period	<u>\$ 255,460</u>	<u>\$ 232,752</u>

:

---

## International Frontier Resources Corporation

### Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

#### 7. 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:

	<b>Three months ended</b>	Year ended
	<b><u>March 31, 2005</u></b>	<u>December 31, 2004</u>
Loss before income taxes	\$ <b><u>(1,468,013)</u></b>	\$ <b><u>(4,037,542)</u></b>
Expected tax recovery at combined federal and provincial statutory rates	\$ <b>(565,184)</b>	\$ (1,554,454)
Increase (decrease) resulting from:		
Statutory rate change	-	(1,549)
Resource allowance	<b>10,115</b>	50,882
Stock-based compensation	<b>547,955</b>	796,128
Other	<b><u>(13,584)</u></b>	<u>46,399</u>
Future income tax recovery	\$ <b><u>(20,698)</u></b>	\$ <b><u>(662,594)</u></b>

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

	<b>March 31,</b>	December 31,
	<b><u>2005</u></b>	<u>2004</u>
Property and equipment	\$ <b>1,395,528</b>	\$ 1,401,078
Asset retirement obligations	<b>(98,353)</b>	(89,610)
Share issue costs	<b>(249,218)</b>	(266,071)
Non-capital losses carry-forward	<b>(383,031)</b>	(361,378)
Other	<b><u>(17,136)</u></b>	<u>(15,531)</u>
	\$ <b><u>647,790</u></b>	\$ <b><u>668,488</u></b>

---

## International Frontier Resources Corporation

### Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

#### 8. Convertible debentures

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

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

As at March 31, 2005 \$880,000 (2004 - \$750,000) of debentures had been converted into 1,466,667 (2004 - 1,249,990) common shares of the Company. At March 31, 2005 the fair value of the remaining \$95,000 of convertible debentures is approximately \$91,563.

#### 9. Share capital

##### a) Authorized

Unlimited common shares  
Unlimited preferred shares

##### b) Issued

	March 31, 2005		December 31, 2004	
	Number of Shares	Amount	Number of Shares	Amount
<b>Common shares</b>				
Beginning of year	32,006,580	\$ 15,475,755	15,034,918	\$ 3,743,098
Issued for cash	-	-	6,861,250	5,581,363
Issued upon exercise of warrants	2,106,457	2,716,024	5,267,500	3,010,925
Issued upon exercise of options	480,000	424,620	430,000	305,230
Issued upon conversion of debentures	216,666	130,000	1,472,212	850,000
Flow-through shares, net	-	-	2,940,700	2,454,145
Issued upon acquisition of properties	75,000	150,000		
Tax effected share issue costs	-	-	-	(496,006)
Balance, end of period	34,884,703	\$ 18,896,399	32,006,580	\$ 15,475,755

---

## International Frontier Resources Corporation

### Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

#### c) Stock options

The Company has a stock option plan available to key consultants, officers, directors, and employees of the Company. For the period ended March 31, 2005, the Company issued 900,000 options at an exercise price of \$1.84 per share. During the period, 480,000 options were exercised at an average price of \$0.42 per share. On March 31, 2005, 3,230,000 options with exercise prices ranging between \$0.25 and \$1.80 were outstanding and exercisable at various dates to February 11, 2010, and were reserved for issuance under the plan. Options granted under the plan generally have a term of five years to expiry.

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

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

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

### c) Stock options (continued)

<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 Exercise Price</u>
\$0.25 - \$0.50	880,000	3.76	\$ 0.45	880,000	\$ 0.45
\$1.50 - \$1.85	<u>2,350,000</u>	<u>4.76</u>	<u>\$ 1.67</u>	<u>2,350,000</u>	<u>\$ 1.67</u>
	<u>3,230,000</u>	<u>4.52</u>	<u>\$ 1.34</u>	<u>3,230,000</u>	<u>\$ 1.34</u>

The weighted average fair market value of options granted for the period ended March 31, 2005 is \$1.85 per option (2004 - \$1.15 per option). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

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

### d) Warrants

Warrants outstanding are as follows:

	<u>March 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning of year	12,398,225	\$ 10	5,420,000	\$ 10
Issued in conjunction with				
Private Placement	-	-	250,000	-
Private Placement (ii)	-	-	12,128,000	-
Flow-through shares (iii),(iv)	-	-	1,565,225	-
Exercised	(4,022,057)	-	(6,915,000)	-
Expired	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Balance, end of period	<u>8,376,168</u>	<u>\$ 10</u>	<u>12,398,225</u>	<u>\$ 10</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

### d) Warrants (continued)

	March 31, 2005			December 31, 2004		
	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)*	-	\$ -	-	2,769,000	\$ 1.15	1,384,500
Private Placement (ii)*	4,985,800	\$ 1.50	2,492,900	6,064,000	\$ 1.50	3,032,000
Flow-through Shares (iii), (iv)	<u>1,390,368</u>	<u>\$ 1.75</u>	<u>1,390,368</u>	<u>1,565,225</u>	<u>\$ 1.75</u>	<u>1,565,225</u>
	<u>8,376,168</u>	<u>\$ 1.24</u>	<u>5,883,268</u>	<u>12,398,225</u>	<u>\$ 1.18</u>	<u>7,981,725</u>

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

- i) As of June 11, 2003, the Company acquired 100% of Sidox Canada. The consideration paid for the purchase of all of the issued and outstanding shares of Sidox Canada is the issuance of 2,000,000 non-transferable performance warrants with a deemed value of \$10, entitling holders to acquire one common share at \$0.25 for two years and \$0.35 in the third year. The warrants can only be exercised if Sidox Canada acquires a ten year exclusive license for Sidox and if wells in which the Company holds an interest that have been treated with Sidox achieve a minimum 25% barrel of oil per day increase for a period of 100 days. The purchase of Sidox Canada was from a company controlled by a director of the Company.
- ii) In conjunction with a private placement occurring May 17, 2004 and closing July 19, 2004, the Company issued 6,064,000 units at \$0.80 per unit for total proceeds of \$4,851,200. Each unit consists of one common share, one Series "A" warrant and one Series "B" warrant. Two Series "A" warrants entitle the holder to acquire one common share at \$1.15 per share for a period of 180 days. Two Series "B" warrants entitle the holder to acquire one common share at \$1.50 for a period of 365 days. Series "B" warrants can only be exercised if the holder has exercised the Series "A" warrant. At March 31, 2005, all of the Series "A" warrants and 1,078,200 of the Series "B" warrants have been exercised

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### d) Warrants (continued)

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

### 10. 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:

	<b>March 31, 2005</b>	March 31, 2004
Basic, beginning of period	<b>33,899,830</b>	14,834,918
Shares reserved pursuant to options	<b>1,344,103</b>	60,329
Shares reserved pursuant to conversion of debenture	<b>161,546</b>	-
Shares reserved pursuant to warrants	<b>4,954,376</b>	493,407
Fully diluted, end of period	<b>40,359,855</b>	15,388,654

In calculating fully diluted common share amounts for the three months ended March 31, 2005, the Company excluded no options and warrants (2004 – nil), because the exercise price was greater than the average market price of its common shares in those periods.

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### 11. Related party transactions

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

	Three months ended <u>March 31, 2005</u>	Year ended <u>December 31, 2004</u>
Consulting fees	\$ 46,500	\$ 155,120
Debenture interest	<u>-</u>	<u>2,000</u>
	<u>\$ 46,500</u>	<u>\$ 157,120</u>

### 12. 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.

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### 13. 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.

### 14. Supplemental cash flow information

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

Three months ended March 31,	<u>2005</u>	<u>2004</u>
Receivables	\$ (1,179,196)	\$ 290,045
Prepays	(18,065)	6,500
Payables and accruals	<u>(120,938)</u>	<u>(46,814)</u>
	\$ <u>(1,318,199)</u>	\$ <u>249,731</u>
Operating activities	\$ (162,580)	\$ 81,973
Investing activities	(1,102,489)	183,613
Financing activities	<u>(53,130)</u>	<u>(15,855)</u>
	\$ <u>(1,318,199)</u>	\$ <u>249,731</u>
Interest paid	\$ <u>4,473</u>	\$ <u>-</u>

### 15. 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

---

# International Frontier Resources Corporation

## Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

March 31, 2005

---

### 16. Subsequent events

- a) Subsequent to March 31, 2005, 50,000 Series “B” warrants representing 25,000 shares of the Company were exercised related to the private placement occurring July 19, 2004 (Note 11e v)).
- b) Subsequent to March 31, 2005, 51,613 Series “C” warrants were exercised in conjunction with private placements occurring on October 26, 2004 and December 23, 2004 (Note 11e vi) & vii)).
- c) On May 18, 2005 the Company was awarded two exploration licenses in the Colville Hills area, NWT. The licenses awarded cover EL-429 for a work commitment bid of \$12,500,000 and EL-432 for a work commitment bid of \$4,000,000. The Company’s share of the work commitment deposit is approximately \$1,300,000.

## **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 period ending March 31, 2005, 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 March 31, 2005 interim consolidated financial statements and December 31, 2004 audited consolidated financial statements and related notes and includes subsequent events to May 25, 2005.

## **Management discussion and analysis**

The primary business of the Company is to explore for hydrocarbons in under explored frontier basins of the Northwest Territories. The Company is currently exploring in three (3) separate areas in Canada's northern frontier which are discussed in the body of this MD&A.

### **1. Central Mackenzie Valley, Northwest Territories**

#### **a) Exploration License No. 397 ("EL-397")**

##### **Working interests;**

As of March 31, 2005 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%

##### **Operations;**

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.

The Consortium has spent approximately \$16,000,000 to acquire 2D seismic on EL-397 and approximately \$19,000,000 to drill and completed the Summit Creek B-44 discovery well drilled on the Wilma structure located within EL-397.

In Q-1, 2005 the consortium spent approximately \$17,500,000 to conduct an extended production test on the Summit Creek B-44 well. The B-44 production test yielded flow rates of approximately 20 MMCF/D and 6,000 barrels per day of 52 degree API condensate from two perforated intervals in the Devonian formation.

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

The consortium has fulfilled the work commitment on EL-397 by drilling the Summit Creek B-44 well and the work deposit has been refunded.

#### **b) TDL Freehold Lands**

As of March 31, 2005 working interests in the Tulita District Land Corporation ("TDL") Freehold lands are held as follows;

##### **Working interests;**

##### **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

**International Frontier Resources Corporation  
Management's Discussion and Analysis  
March 31, 2005**

---

**M-29**

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

**M-37**

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

**M-36 & M-38**

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

**Operations;**

In Q-1, 2005 the consortium drilled the Sah Cho L-71 exploratory wildcat well to a depth of 11,500 feet on TDL Freehold parcel M-37. The well was drill stem tested in eight zones of interest; drill stem testing yielded none commercial rates of hydrocarbons. Subsequent to drill stem testing production casing was run to a total depth of 11,500 feet and the well has been suspended for future operations.

The Company participated for a five percent (5%) interest in approximate costs of \$19,000,000 to drill and case the Sah Cho L-71 well. The drilling of the Sah Cho L-71 well has fulfilled the terms of the TDL Freehold Lease.

**c) Exploration License No 423 ("EL- 423")**

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.

**Working interests;**

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

**Operations;**

As of March 31, 2005 the consortium has not incurred any allowable expenditure on EL-423. The Company has lodged a refundable deposit in the amount of \$310,000 for its share of the work commitment deposit on EL-423.

Subsequent to March 31, 2005 the consortium will acquire up to 508 kilometers of single fold 2D trade seismic data at a maximum cost of \$1,400,000. The Company will participate for its proportional five percent (5%) share of the costs.

**d) Exploration License No. 416 ("EL-416")**

**Working interests;**

As of March 31, 2005 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.

**Operations;**

As March 31, 2005 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. 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 the consortium in Q-2, 2005.

No expenditures were incurred in Q-1, 2005 on EL-416.

**e) Exploration License No 401 ("EL-401")**

**Working interests;**

As of March 31, 2005 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 Rodera – 1.90%

**Operations;**

As of March 31, 2005 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 March 31, 2005 the Company has incurred approximately 4.66% of \$13,000,000 in expenditures on EL-401.

No expenditures were incurred on EL-401 in Q-1, 2005.

**2. Hay River Project Area, Southern NWT**

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 shoot 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 a Call for Nominations as and when issued by the Department of Indian and Northern Affairs.

## **2. Hay River Project Area, Southern NWT (continued)**

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 did not incur any costs on the Hay River lands in Q-1, 2005.

### **Subsequent Events** **Central Mackenzie Valley**

On May 1, 2005 Husky Oil took over operatorship from Northrock Resources on EL-397, EL-423 and EL-416.

## **3. Colville Hills Project Area, NWT**

On May 18, 2005 the Company (25%) was awarded two (2) Exploration Licenses in the Colville Hills area, NWT. The licenses awarded cover EL-429 (210,500 acres) for a work commitment bid of \$12,500,000 and EL-432 (162,680 acres) for a work commitment bid of \$4,000,000. The licenses will be operated by BG Canada Exploration and Production, Inc (75%) a wholly owned subsidiary of multi national company BG Group plc. of London, England.

Colville Hills is located approximately 120 kilometers north of the Company's Summit Creek B-44 discovery well.

### **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 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.

**International Frontier Resources Corporation**  
**Management's Discussion and Analysis**  
**March 31, 2005**

---

**QUARTERLY RESULTS**

**Revenue and Pricing**

The following table summarizes results for the three months ended March 31, 2005 and 2004.

<b>Three months ended March 31,</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sales volumes – BOE/day	45	-	-
Oil Revenues, net of royalties	\$ 128,743	\$ -	\$ -
Interest and other income	57,652	1,234	1,781
Net loss	\$ (1,447,315)	\$ (331,059)	\$ (16,579)
Net loss per share - basic	\$ (0.04)	\$ (0.02)	\$ (0.00)
- diluted	\$ (0.04)	\$ (0.02)	\$ (0.00)
Total assets	\$ 17,715,050	\$ 3,552,399	\$ 2,302,127
Working capital	\$ 12,165,397	\$ 1,069,415	\$ (20,599)

**Revenues and operating costs**

For the three month period ending March 31, 2005 the Company received gross oil and gas revenues of \$173,181 (2004 - \$nil) and paid royalties of \$44,438 (2004 - \$ nil). Net oil revenues of \$128,473 for the three months ended March 31, 2005 decreased by \$52,771 as compared to the three months ended December 31, 2004. Net oil revenues in the first quarter of 2005 decreased due to decrease in production volumes from an average of 60 BOE per day in the fourth quarter of 2004 to an average of 50 BOE per day in the first quarter of 2005 as a result of shutting in one of the two operated properties used for Sidox testing in the first quarter of 2005.

During the three months ended March 31, 2005, the Company incurred operating expense of \$83,181 (2004 - \$ nil). Operating expenses in the first quarter of 2005 decreased by \$53,825 or 39.29% as compared to the fourth quarter of 2004. Operating costs per BOE decreased from \$24.45 for the three months ended December 31, 2004 to \$19.38 per BOE for the three months ended March 31, 2005, a decrease of 21%. This decrease in the first quarter of 2005 is due to certain non-recurring Sidox operating costs incurred in the fourth 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 \$57,652 (2004 - \$1,234) for the three months ended March 31, 2005. The increase in interest income in the first quarter of 2005 as compared to 2004 is due to interest earned on investment of funds raised through financing activities during the year resulting in a larger cash balance at the end of the first quarter of 2005.

**International Frontier Resources Corporation**  
**Management's Discussion and Analysis**  
**March 31, 2005**

---

**QUARTERLY RESULTS**

**Depletion and depreciation**

Depletion and depreciation decreased by 96.51% to \$32,892 in the first quarter of 2005 as compared to \$941,844 for the three months ended December 31, 2004. The decrease in DD&A in the first quarter of 2005 as compared to the fourth quarter of 2004 is mainly due to recognition of a \$795,554 impairment loss during the three months ended December 31, 2004 which represents the amount by which the carrying amount of capitalized costs related to producing properties in Alberta exceeded fair value of the reserves as estimated by the Company's reservoir engineers at December 31, 2004. There was no such impairment for the three months ended March 31, 2005. Also included in depletion and depreciation in the three months ended December 31, 2004 is an impairment loss of \$64,169 related to write down to estimated net realizable value of costs incurred on unproven properties in which the Company has dropped its interests. There were no such costs written off at March 31, 2005. The overall increase in depletion and depreciation as compared to the same period in 2004 is due to the fact that there were no producing properties until the second quarter of 2004.

The carrying value of properties in the exploration stage in the Northwest Territories which have been excluded from the depletion calculation at March 31, 2005 is \$4,056,058 (2004- \$ nil). A separate impairment test has been performed on these properties and no impairment exists at March 31, 2005.

**General and administrative expenses**

<b>Three months ended March 31,</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Investor relations	\$ 2,997	\$ 263,446	\$ 574
Filing and transfer fees	11,345	6,530	4,709
Professional fees	22,319	11,838	3,400
Consulting fees - gross	71,660	32,580	21,360
Consulting fees - capitalized	(38,500)	(22,461)	(11,921)
Rent and office costs	<u>35,051</u>	<u>9,281</u>	<u>3,661</u>
	<u>\$ 104,872</u>	<u>\$ 301,214</u>	<u>\$ 21,783</u>

General and administrative expenses of \$104,872 were incurred in the first quarter of 2005 (2004 - \$301,214) a 65% decrease as compared to the same quarter in 2004. During the three months ended March 31, 2004, the Company incurred expenses totaling \$263,446 related to the efforts to enhance shareholder awareness of the Company, there were no significant expense of this nature incurred in the first quarter of 2005. General and administrative expenses decreased by 39% for the three months ended March 31, 2005 as compared to the fourth quarter of 2004.

**Stock based compensation**

Stock based compensation costs increased from \$58,714 in the first quarter of 2004 to \$1,423,260 in the same period in 2005 due to an increased number of options issued to officers, directors, employees and consultants during the three months ended March 31, 2005.

**International Frontier Resources Corporation**  
**Management's Discussion and Analysis**  
**March 31, 2005**

---

**Net Loss**

The Company had a net loss for the three month period ending March 31, 2005 of \$1,447,315 or \$0.04 per share as compared with a net loss of \$361,171 or \$0.02 per share in first quarter of 2004. The Company's net loss is affected by items which are non-operational in nature. For the quarter ending March 31, 2005 these non-cash items included depletion and depreciation and accretion expense of \$39,063 (2004 - \$2,461) stock based compensation expense of \$1,463,260 (2004 - \$58,714), and a future income tax recovery of \$20,698 (2004 - \$30,112) resulting in an adjusted net loss from operations at March 31, 2005 of \$5,690 (2004 - \$330,108).

**Liquidity capital resources and financing activities**

The Company had working capital of \$12,165,397 at March 31, 2005. 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 conduct exploration programs in the Central Mackenzie Valley in the Northwest Territories. The Company's working capital at March 31, 2005 is expected to be sufficient to fund projected NWT exploration activities and expenditures related to the SIDOX Pilot Project.

**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 interim financial statements at March 31, 2005. Unless otherwise denoted in the March 31, 2005 interim 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 three months ended March 31, 2005 were \$848,155 (2004 - \$344,576), of which 74% (2004 - 43%) of these expenditures related to exploration activities in the Central Mackenzie Valley, Northwest Territories. 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.

### **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 \$44,740 during the first quarter of 2005 (2004 - \$173,026). 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 \$3,147,065 at March 31, 2005. The Company had no debt at March 31, 2005. 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 three months ended March 31, 2005 were \$46,500 (2004 - \$26,680). Of the total consulting fees paid to related parties during the quarter, \$29,250 (2003 - \$11,921) was capitalized to property and equipment at the end of the period.

### **Changes in Accounting Policies including initial adoption**

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 March 31, 2005 interim consolidated financial statements Note 3 "Change in Accounting Policy" for detailed discussion of the above mentioned accounting changes.

**International Frontier Resources Corporation  
Management's Discussion and Analysis  
March 31, 2005**

---

**OTHER ITEMS**

**Outstanding shares, options and warrants**

The Company's share capital structure is as follows:

<b>As of:</b>	<b>March 31, 2005</b>	<b>May 31, 2005</b>
Common shares outstanding	34,884,716	34,961,318
Warrants outstanding	5,883,268	5,806,655
Options outstanding	3,230,000	3,230,000
Convertible debentures	<u>233,344</u>	<u>233,344</u>
Fully diluted	<u>44,231,328</u>	<u>44,231,317</u>

Subsequent to March 31, 2005:

- 50,000 Series "B" Warrants representing 25,000 shares of the Company were exercised in conjunction with a private placement occurring July 19, 2004.
- 51,613 Series "C" warrants issued in conjunction with private placements occurring on October 26, 2004 and December 23, 2004 were exercised.

Additional details on the shares, options and warrants outstanding at March 31, 2005 are available in the notes to the March 31, 2005 interim 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.

**International Frontier Resources Corporation**  
**Management's Discussion and Analysis**  
**March 31, 2005**

---

**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:

<b>Quarter ended</b>	<b>March 31, 2005</b>	<b>Dec 31, 2004</b>	<b>Sept. 30, 2004</b>	<b>June 30, 2004</b>
Sales volumes – BOE/day	45	60	68	33
Revenues, net	186,395	224,806	278,121	121,469
Net loss	(1,452,172)	(2,540,027)	(339,892)	(265,074)
Net loss per share - basic	(0.04)	(0.15)	(0.01)	(0.01)
- diluted	(0.04)	(0.15)	(0.01)	(0.01)
Total assets	18,066,105	14,791,008	10,489,813	7,435,380
Working capital	12,165,397	9,954,156	5,222,766	2,449,190
Net cash generated (loss) from operations	(5,690)	(87,938)	12,910	(134,290)
	<b>March 31, 2004</b>	<b>Dec 31, 2003</b>	<b>Sept. 30, 2003</b>	<b>June 30, 2003</b>
Sales volumes – BOE/day	-	-	-	-
Revenues, net	1,234	1,802	2,085	1,995
Net loss	(331,059)	(875,162)	(28,242)	(43,187)
Net loss per share – basic	(0.02)	(0.10)	(0.00)	(0.00)
- diluted	(0.02)	(0.10)	(0.00)	(0.00)
Total assets	3,552,399	3,577,170	2,582,595	2,376,979
Working capital	1,069,415	1,369,487	164,259	33,016
Net cash generated (loss) from operations	(299,996)	(236,558)	(29,980)	(50,989)

## **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 is 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 affect 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 affect 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.

### **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](http://sedar.com).