

International Frontier Resources Corporation

Interim Financial Statements

June 30, 2005

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International Frontier Resources Corporation
Financial Statements
For the six month interim period ended
June 30, 2005

(unaudited – prepared by Management)

National Instrument 51-102 Notice

The financial statements of International Frontier Resources Corporation (“the Company”) as at June 30, 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

Interim Balance Sheets

(unaudited – prepared by Management)

	June 30, 2005	December 31, 2004
Assets		
Current		
Cash and cash equivalents	\$ 9,569,122	\$ 9,961,732
Receivables	460,018	195,095
Prepays	<u>47,388</u>	<u>12,273</u>
	10,076,528	10,169,100
Investment in Sidox Chemicals Canada Ltd. (Note 4)	325,000	-
Refundable deposits (Note 5)	1,382,750	351,500
Property and equipment (Note 6)	<u>6,017,975</u>	<u>4,270,408</u>
	<u>\$ 17,802,253</u>	<u>\$ 14,791,008</u>
Liabilities		
Current		
Payables and accruals	\$ 98,708	\$ 214,944
Asset retirement obligations (Note 7)	260,640	232,752
Future income taxes (Note 8)	604,136	668,488
Convertible debentures (Notes 9)	<u>91,563</u>	<u>216,860</u>
	<u>1,055,047</u>	<u>1,333,044</u>
Shareholders' Equity		
Share capital (Note 10b)	19,020,390	15,475,755
Contributed surplus	3,788,159	2,588,519
Equity component of convertible debentures	3,437	8,140
Warrants (Note 10d)	10	10
Deficit	<u>(6,064,790)</u>	<u>(4,614,460)</u>
	<u>16,747,206</u>	<u>13,457,964</u>
	<u>\$ 17,802,253</u>	<u>\$ 14,791,008</u>

Contingent liabilities (Note 13)

Subsequent events (Note 17)

On behalf of the Board

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

See accompanying notes to the financial statements.

International Frontier Resources Corporation

Interim Statements of Loss and Deficit

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue				
Oil and Gas	\$ 221,918	\$ 116,725	\$ 395,098	\$ 152,945
Less: royalties	<u>(35,900)</u>	<u>-</u>	<u>(80,338)</u>	<u>(36,220)</u>
	186,018	-	314,760	116,725
Interest	<u>56,184</u>	<u>4,744</u>	<u>113,836</u>	<u>5,978</u>
	242,202	121,469	428,596	122,703
Expenses				
Operating Costs	109,230	83,808	193,110	83,808
Depreciation	68,780	154,460	101,673	156,921
Accretion of asset retirement Obligations	5,180	-	11,351	-
General and administration	104,932	169,974	209,805	471,188
Stock based compensation	-	-	1,423,260	58,714
Interest and bank charges	<u>48</u>	<u>1,977</u>	<u>4,080</u>	<u>1,993</u>
	288,170	410,219	1,943,279	772,624
Loss before income taxes	(45,968)	(288,750)	(1,514,683)	(649,921)
Income taxes (recovery)	<u>(43,654)</u>	<u>(23,676)</u>	<u>(64,352)</u>	<u>(53,788)</u>
Net loss	\$ (2,314)	\$ (265,074)	\$ (1,450,331)	\$ (596,133)
Loss per share				
Basic (Note 11)	\$ (0.00)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Diluted (Note 11)	\$ (0.00)	\$ (0.01)	\$ (0.04)	\$ (0.03)
Deficit, beginning of period			\$ (4,614,459)	\$ (1,239,512)
Net loss			<u>(1,450,331)</u>	<u>(596,133)</u>
Deficit, end of period			\$ (6,064,790)	\$ (1,835,645)

See accompanying notes to the interim financial statements.

International Frontier Resources Corporation

Interim Statements of Cash Flows

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2005	2004	2005	2004
Increase (decrease) in cash and cash equivalents				
Operating				
Net loss	\$ (2,314)	\$ (265,074)	\$ (1,450,331)	\$ (596,133)
Depreciation	68,780	154,460	101,673	156,921
Accretion of asset retirement Obligations	5,180	-	11,351	-
Stock based compensation	-	-	1,423,260	58,714
Gain on sale of investment	-	-	(4,746)	-
Income tax (recovery)	(43,654)	(23,676)	(64,352)	(53,788)
Cash flow from operating activities	27,992	(134,290)	16,855	(434,286)
Change in non-cash operating working capital (Note 15)	28,627	277,392	(133,253)	359,365
	<u>56,619</u>	<u>143,102</u>	<u>(116,398)</u>	<u>(74,921)</u>
Investing				
Additions to petroleum and natural gas properties	(1,076,445)	(1,846,534)	(1,771,789)	(2,191,110)
Investment in Sidox Chemicals Canada Inc.	(235,000)	-	(235,000)	-
Change in non-cash investing working capital (Note 15)	872,599	(42,774)	(229,890)	160,839
	<u>(438,846)</u>	<u>(1,889,308)</u>	<u>(2,236,679)</u>	<u>(2,030,271)</u>
Financing				
Private placements	127,823	2,815,597	3,044,847	3,140,097
Convertible debentures	-	875,000	-	875,000
Deferred financing charge	-	-	-	-
Change in non-cash financing working capital (Note 15)	-	(92,200)	(53,130)	(108,055)
	<u>127,823</u>	<u>3,598,397</u>	<u>2,991,717</u>	<u>3,907,042</u>
Net decrease in cash and cash equivalents	(254,404)	1,852,191	638,640	1,801,850
Cash and cash equivalents, Beginning of period	11,206,277	1,269,949	10,313,233	1,320,290
End of period	\$ <u>10,951,873</u>	\$ <u>3,122,140</u>	\$ <u>10,951,873</u>	\$ <u>3,122,140</u>
Cash and cash equivalents is represented by:				
Cash and temporary investments			\$ 9,569,122	\$ 2,519,174
Refundable deposits			<u>1,382,750</u>	<u>602,426</u>
			\$ <u>10,951,872</u>	\$ <u>3,122,140</u>

See accompanying notes to the interim financial statements.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 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 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 interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2004. The 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.
- 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 financial statements.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

4. Investment in Sidox Chemicals Canada Ltd.

In June 2005, the patent owner of Sidox exercised its right to acquire 50% of the issued and outstanding shares of the Company's wholly owned subsidiary Sidox Chemicals Canada Ltd. ("Sidox Canada"). As a result the Company purchased 50% of the outstanding shares of Sidox Canada for a cash consideration of \$135,000 and payment in kind of \$90,000 through provision of 2 tonnes of Sidox material at \$45,000 per tonne. In addition, the Company was obligated to pay \$100,000 on behalf of Sidox Canada to acquire an exclusive licensing agreement to the patented technology Sidox in Canada. The investment in Sidox Canada has been recorded at cost at June 30, 2005.

5. Refundable Deposits

As at June 30, 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 13). As at June 30, 2005 an application has been made for a refund of this deposit.

As at June 30, 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 13).

As at June 30, 2005 the Company has provided and assignment of cash totalling \$781,250 (2004 - \$nil) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 429 (see Note 13).

As at June 30, 2005 the Company has provided and assignment of cash totalling \$250,000 (2004 - \$nil) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 432 (see Note 13).

6. Property and equipment

June 30, 2005

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 7,668,666	\$ 1,682,070	\$ 5,986,596
Office furniture and equipment	<u>78,209</u>	<u>46,830</u>	<u>31,379</u>
	<u>\$ 7,836,875</u>	<u>\$ 1,728,900</u>	<u>\$ 6,017,975</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

6. Property and equipment (continued)

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>

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 (2004 - \$4,899,473) have no cost basis for income tax purposes. During the six months ended June 30, 2005, \$38,250 (2004 - \$59,043) of overhead expenses directly related to exploration and development activities were capitalized and \$6,729 (2004 - \$38,594) of interest expense was capitalized. Also during the six months ended June 30, 2005 \$65,490 (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 June 30, 2005, undeveloped properties with a cost of \$5,248,344 (2004 - \$3,550,670) included in petroleum and natural gas properties have not been subject to depletion.

As at June 30, 2005 a \$20,500 (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 statements of loss and deficit.

During June 2005 the cost of securing an option to acquire an exclusive licensing agreement for the Sidox product in Canada was exercised by the Company on behalf of Sidox Canada for a payment of \$100,000 to the patent owner of Sidox.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

7. 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 June 30, 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:

	Six months ended <u>June 30, 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>11,351</u>	<u>21,004</u>
Balance, end of period	<u>\$ 260,640</u>	<u>\$ 232,752</u>

8. 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 33.60% (2004 - 39.50%) to loss before income taxes. This difference results from the following items:

	Six months ended <u>June 30, 2005</u>	Year ended <u>December 31, 2004</u>
Loss before income taxes	\$ <u>(1,514,683)</u>	\$ <u>(4,037,542)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (508,932)	\$ (1,554,454)
Increase (decrease) resulting from:		
Statutory rate change	(89,237)	(1,549)
Resource allowance	11,782	50,882
Stock-based compensation	478,215	796,128
Other	<u>43,820</u>	<u>46,399</u>
Future income tax recovery	<u>\$ (64,352)</u>	<u>\$ (662,594)</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

8. Income taxes (continued)

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

	<u>June 30,</u> <u>2005</u>	December 31, <u>2004</u>
Property and equipment	\$ 1,240,166	\$ 1,401,078
Asset retirement obligations	(87,575)	(89,610)
Share issue costs	(203,910)	(266,071)
Non-capital losses carry-forward	(328,603)	(361,378)
Other	<u>(15,942)</u>	<u>(15,531)</u>
	<u>\$ 604,136</u>	<u>\$ 668,488</u>

9. 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 June 30, 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 June 30, 2005 the fair value of the remaining \$95,000 of convertible debentures is approximately \$91,563.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

10. Share capital

a) Authorized

Unlimited common shares

Unlimited preferred shares

b) Issued

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Common shares				
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	2,183,070	2,843,848	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 of tax effect	-	-	2,940,700	2,454,145
Issued upon acquisition of properties	75,000	150,000		
Tax effected share issue costs	-	(3,833)	-	(496,006)
Balance, end of period	<u>34,961,316</u>	<u>\$ 19,020,390</u>	<u>32,006,580</u>	<u>\$ 15,475,755</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

c) Stock options

The Company has a stock option plan available to officers, directors, employees and key consultants, of the Company. For the period ended June 30, 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.

<u>Outstanding and exercisable</u>	<u>June 30,</u> <u>2005</u>		<u>December 31,</u> <u>2004</u>	
	<u>Number of</u> <u>Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number of</u> <u>Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>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,</u> <u>2005</u>		<u>December 31,</u> <u>2004</u>	
	<u>Number of</u> <u>Options</u>	<u>Price</u>	<u>Number of</u> <u>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 Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

c) Stock options (continued)

Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.25 - \$0.50	880,000	3.51	\$ 0.45	880,000	\$ 0.45
\$1.50 - \$1.85	2,350,000	4.51	\$ 1.67	2,350,000	\$ 1.67
	<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 June 30, 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:

	June 30, 2005	December 31, 2004
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:

	June 30, 2005		December 31, 2004	
	Number of Warrants	Amount	Number of Warrants	Amount
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	(4,123,670)	-	(6,915,000)	-
Expired	-	-	(50,000)	-
Balance, end of period	<u>8,274,555</u>	<u>\$ 10</u>	<u>12,398,225</u>	<u>\$ 10</u>

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

d) Warrants (continued)

	<u>June 30, 2005</u>			<u>December 31, 2004</u>		
	<u>Number of Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Number of Common Shares for Exercise of Warrants</u>	<u>Number of Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Number of Common Shares for Exercise of Warrants</u>
Private Placement (i)	2,000,000	\$ 0.35	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)*	4,935,800	\$ 1.50	2,492,900	6,064,000	\$ 1.50	3,032,000
Flow-through Shares (iii), (iv)	<u>1,338,755</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>8,274,555</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 June 30, 2005, all of the Series "A" warrants and 1,128,200 of the Series "B" warrants have been exercised

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

June 30, 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.

11. 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>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Basic, beginning of period	36,814,710	14,834,918
Shares reserved pursuant to options	482,500	133,198
Shares issued pursuant to private placement	-	606,814
Shares reserved pursuant to conversion of debenture	93,338	42,735
Shares reserved pursuant to warrants	<u>1,500,000</u>	<u>1,579,175</u>
Fully diluted, end of period	<u>38,890,548</u>	<u>17,196,840</u>

In calculating fully diluted common share amounts for the six months ended June 30, 2005, the Company excluded 8,624,555 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 Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2005

12. Related party transactions

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

	Six months ended <u>June 30, 2005</u>	Year ended December 31, 2004
Consulting fees	\$ 93,000	\$ 155,120
Debenture interest	<u>-</u>	<u>2,000</u>
	<u>\$ 93,000</u>	<u>\$ 157,120</u>

13. Contingent liabilities

- a) The Company has lodged a letter of credit in the amount of \$41,500 for its share of a \$381,608 refundable deposit on NWT Exploration License No. 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 a \$1,526,430 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-416.

The work commitment on EL-416 has been fulfilled and an application has been submitted for a refund of \$381,608.

- b) The Company has lodged a letter of credit in the amount of \$310,000 for its share of a \$6,200,000 refundable deposit on NWT Exploration License No. 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 a \$24,800,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-423.

At June 30, 2005 no qualified expenditures have been incurred on EL-423.

- c) The Company has lodged a letter of credit in the amount of \$781,250 for its share of a \$3,125,000 refundable deposit on NWT Exploration License No. 429. The letter of credit is secured by an assignment of cash of \$781,250. The Company is contingently liable under the letter of credit for any portion of a \$12,500,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-429.

At June 30, 2005 no qualified expenditures have been incurred on EL-429.

- d) The Company has lodged a letter of credit in the amount of \$250,000 for its share of a \$1,000,000 refundable deposit on NWT Exploration License No. 432. The letter of credit is secured by an assignment of cash of \$250,000. The Company is contingently liable under the letter of credit for any portion of a \$4,000,000 work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-416.

At June 30, 2005 no qualified expenditures have been incurred on EL-432.

International Frontier Resources Corporation

Notes to the Interim Financial Statements

(unaudited – prepared by Management)

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14. 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.

15. Supplemental cash flow information

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

Six months ended June 30,	<u>2005</u>	<u>2004</u>
Receivables	\$ (116,235)	\$ 197,169
Prepays	(264,924)	6,500
Payables and accruals	<u>(35,114)</u>	<u>208,480</u>
	\$ <u>(416,273)</u>	\$ <u>412,147</u>
Operating activities	\$ (133,253)	\$ 359,365
Investing activities	(229,890)	160,839
Financing activities	<u>(53,130)</u>	<u>(108,055)</u>
	\$ <u>(416,273)</u>	\$ <u>412,149</u>
Interest paid	\$ <u>11,829</u>	\$ <u>-</u>

16. 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 Interim Financial Statements

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17. Subsequent events

All Series “B” warrants and Series “C” warrants outstanding at June 30, 2005 expired on July 1, 2005.

International Frontier Resources Corporation
Management's Discussion and Analysis
June 30, 2005

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 June 30, 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 June 30, 2005 interim consolidated financial statements and December 31, 2004 audited consolidated financial statements and related notes and includes subsequent events to August 15, 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:

Quarter ended	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004
Sales volumes – BOE/day	56	50	60	68
Revenues, net	242,202	186,395	224,806	278,121
Net loss	(2,314)	(1,452,172)	(2,540,027)	(339,892)
Net loss per share - basic	(0.00)	(0.04)	(0.15)	(0.01)
- diluted	(0.00)	(0.04)	(0.15)	(0.01)
Total assets	17,802,253	18,066,105	14,791,008	10,489,813
Working capital	10,077,820	12,065,397	9,954,156	5,222,766
Net cash generated (loss) from operations	27,992	(5,690)	(87,938)	12,910
	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003
Sales volumes – BOE/day	-	-	-	-
Revenues, net	121,469	1,234	1,802	2,085
Net loss	(265,074)	(331,059)	(875,162)	(28,242)
Net loss per share – basic	(0.01)	(0.02)	(0.10)	(0.00)
- diluted	(0.01)	(0.02)	(0.10)	(0.00)
Total assets	7,435,380	3,552,399	3,577,170	2,582,595
Working capital	244,919	1,069,415	1,369,487	164,259
Net cash generated (loss) from operations	(134,290)	(299,996)	(236,558)	(29,980)

Operations Review

1) Central Mackenzie Valley, Northwest Territories

EL- 397 (342,000 gross acres, 17,100 net acres)

Working interests;

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

Operations;

In the second quarter the consortium agreed to shoot up to 200 kilometers of 2D seismic on EL-397. The seismic program commenced in July and is scheduled to be completed in September. The seismic covers the South Keele, Diga, Tehkwa and Red Dog prospects located on the south half of the license. The program is estimated to cost between \$10 and \$12 million gross, \$500,000 to \$600,000 net to IFR.

In July a surface geological field mapping project commenced on EL-397 this data will be integrated into geological and geophysical models.

Applications have been submitted to regulatory authorities for three operations, the applications cover;

- Drill a delineation well on the Summit Creek structure.
- Drill two exploratory wildcat wells, each well will test a separate structure.

Due to logistics only two of three operations will be conducted in the first quarter 2006, a decision on which two will be undertaken will be made after a review of this summer's seismic data.

The Company commissioned an independent petrophysical report on the Summit Creek B-44 well and Sah Cho L-71 well. In summary the report concludes that both the matrix and fractured porosity systems in the B-44 well contributed to flow rates of approximately 10,000 BOEPD. The report also evaluated the Sah Cho L-71 well. Due to divergent interpretations the Company has agreed to exchange petrophysical data with partner's to arrive to a common consensus on the L-71 well.

The work commitment on EL-397 has been fulfilled and the deposit has been refunded.

EL- 423 (225,600 gross acres, 11,280 net acres)

Working interests;

Northrock Resources – 32.50%
Husky Oil – 29.48% (operator)
EOG Resources – 26.4%
International Frontier – 5.00%
Pacific Rodera – 6.65%

The work commitment on this license is \$24,500,000 of which IFR's share is \$1,225,000. The Company has lodged a letter of credit for \$310,000 covering its share of a refundable deposit.

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Operations:

In Q-2 the consortium purchased a 1970's vintage 2D seismic data set at a cost of approximately \$850,000, the data has been reprocessed and is currently being interpreted. In August a field surface geological mapping project commenced on the west half of EL-423.

A benefits and access agreement with the Tulita District is currently being negotiated. Future plans include shooting seismic over the Nowhe, Cloverleaf, Crescent Ridge and Haywood prospects in Q-2, 2007.

EL-416 (199,000 gross acres, 15,225 net acres)

Working interests;

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% (operator)

Term;

The primary term of the license expires on September 18, 2005. The work commitment has been fulfilled and an application for return of the work deposit has been submitted.

Operations;

No operations were conducted in Q-2, 2005.

EL-401 (326,000 gross acres, 1,010 net acres)

Working interests;

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

Operations;

No operations were conducted in Q-2, 2005. In August 2005 approximately 50% of the license was relinquished.

TDL Freehold Lands (100,000 gross acres, 9,110 net acres)

Working interests;

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

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

TDL Freehold Lands (100,000 gross acres, 9,110 net acres) - continued

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 Roderia – 6.625%
EOG Resources – 23.3750%
Husky Oil Operations – 32.50%

M-36 & M-38

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

Operations;

In Q-3, 2005 seismic is being shot on the Tehkwa prospect located on TDL parcel M-38.

2) Hay River Area, Southern Northwest Territories

The Company entered into a Memorandum of Understanding ("MOU") with the Katlodeeche First Nations ("KFN"). The MOU provides the Company with surface access to shoot proprietary seismic on both reserve and traditional lands covering an area of approximately 1.9 million acres. Under the terms of the agreement the Company will incur 100% of all exploration and development costs to earn 95% of all revenues. Upon the Company recovering 135% of all capital expenditures future revenues will be shared IFR-50% and KFN-50%.

The agreement provides the Company with the right to acquire sub-surface mineral rights on the Hay River Reserve (35,000 acres). The traditional lands are located in an area that requires approval for a rights issuance between the Federal Department of Indian and Northern Affairs and members of the Deh Cho community. As the Deh Cho have not settled their land claims with the Federal Government there can be no assurance of a future rights issuance(s).

Operations:

No operations were conducted in Q-2, 2005. The Company has commissioned a hydrodynamic study of the area. Future plans include purchasing trade seismic data and conducting an areomag survey.

3) Colville Hills Area, Northwest Territories

EL-429 (210,500 gross acres, 52,625 net acres)

Working Interests:

BG Canada Exploration and Production Inc. – 75% (operator)
International Frontier – 25%

In May 2005 EL-429 was awarded for a work commitment bid of \$12,500,000, of which the Company's share is \$3,125,000. A letter of credit in the amount of \$781,250 has been issued representing the Company's 25% share of a refundable work deposit.

Operations:

Geological and geophysical mapping is in progress. Future plans include shooting up to 200 kilometers of 2D seismic in Q-1, 2007.

EL-432 (162,680 gross acres, 40,670 net acres)

Working Interest:

BG Canada Exploration and Production Inc. – 75% (operator)
International Frontier – 25%

In May 2005 EL-432 was awarded for a work commitment bid of \$4,000,000, of which the Company's share is \$1,000,000. A letter of credit in the amount of \$250,000 has been issued representing the Company's 25% share of a refundable work deposit.

Operations:

Geological and geophysical mapping is in progress. Future plans are to shoot 2D seismic in Q-1, 2007.

4) Sidox Chemicals Canada Ltd.

In the second quarter Enhanced Recovery Systems Ltd. ("ERS") owners of the Sidox patent, elected to purchase a 50% shareholding in Sidox Chemicals Canada Ltd ("SCC"). Prior to ERS's election SCC was a 100% wholly owned subsidiary of International Frontier. The shareholdings of SCC are now owned 50% IFR and 50% ERS, therefore all future Sidox production acquisitions/joint ventures will be financed by the shareholders of SCC on a 50 – 50 basis.

Operations:

SIDOX Pilot Project -Alderson Lower Mannville M2M Pool (IFR 100%)

In July 2004 phase one of the Sidox pilot project commenced in eight wells, phase one results were favorable as pool rates were increased from 50 BOPD to 68 BOPD and water cuts were reduced by an average 20% for a period of 100 days. In April 2005 a second treatment of Sidox was applied in four wells, treatment costs per well were reduced from \$30,000 to \$11,000. In the second quarter the Alderson facility was hit by a tornado, the tornado coupled with down hole equipment problems resulted in production down time in July.

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QUARTERLY RESULTS

Revenue and Pricing

The following table summarizes results for the six months ended June 30, 2005 and 2004.

Six months ended June 30,	2005	2004	2003
Sales volumes – BOE/day	56	22	-
Oil Revenues, net of royalties	\$ 314,760	\$ 116,725	\$ -
Interest and other income	113,836	5,978	3,776
Net loss	\$ (1,450,331)	\$ (596,133)	\$ (59,766)
Net loss per share - basic	\$ (0.04)	\$ (0.03)	\$ (0.00)
- diluted	\$ (0.04)	\$ (0.03)	\$ (0.00)
Total assets	\$ 17,802,253	\$ 7,435,380	\$ 2,376,979
Working capital	\$ 9,977,820	\$ 2,449,190	\$ 33,016

Revenues and operating costs

For the six month period ending June 30, 2005 the Company received gross oil and gas revenues of \$395,098 (2004 - \$152,945) and paid royalties of \$44,438 (2004 - \$36,220). Increase in 2005 is due to the fact that the properties were purchased in April of 2004, therefore, there was not a full six months of production for the six months ended June 30, 2004. Net oil revenues of \$186,018 for the three months ended June 30, 2005 increased by \$57,245 as compared to the three months ended March 31, 2005. Net oil revenues in the second quarter of 2005 increased due to an increase in production volumes from an average of 50 BOE per day in the first quarter of 2005 to an average of 56 BOE per day in the second quarter of 2005. Average price received for the three months ended June 30, 2005 remained consistent with the first quarter of 2005 at \$41 per BOE.

In the six months ended June 30, 2005 the Company incurred operating expenses of \$193,110 (2004 - \$83,808). Increased operating costs in 2005 are reasonable as there was not a full six months of production in 2005 as explained above. For the three months ended June 30, 2005 the Company incurred operating expense of \$109,230 as compared to \$83,181 for the three months ended March 31, 2005. Operating expenses in the second quarter of 2005 increased by 31% as compared to the first quarter of 2005. Operating costs per BOE decreased slightly from \$19.38 for the three months ended March 31, 2005 to \$18.91 per BOE for the three months ended June 30, 2005, a decrease of 2%. This decrease in the second quarter of 2005 is due to increased production for the three months ended June 30, 2005.

The Company has also generated interest income from short term investments of \$113,836 (2004 - \$5,978) for the six months ended June 30, 2005. The increase in interest income in the second quarter of 2005 as compared to 2004 is due to interest earned on investment of funds raised through financing activities.

**International Frontier Resources Corporation
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QUARTERLY RESULTS

Depletion and depreciation

Depletion and depreciation increased by 109% to \$68,780 in the second quarter of 2005 as compared to \$32,892 for the three months ended March 31, 2005. The increase in DD&A in the second quarter of 2005 as compared to the first quarter of 2005 is mainly due to a higher depletion rate in the second quarter of 2005 resulting from increased production in that period along with the recognition of a \$20,500 impairment loss during the three months ended June 30, 2005 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. 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 well into 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 June 30, 2005 is \$5,248,343 (2004- \$ 2,583,448). A separate impairment test has been performed on these properties and no impairment exists at June 30, 2005.

General and administrative expenses

Six months ended June 30,	2005	2004	2003
Investor relations	\$ 27,382	\$ 350,621	\$ 11,324
Filing and transfer fees	17,878	19,005	-
Professional fees	49,592	45,104	37,737
Consulting fees - gross	138,260	108,494	62,275
Consulting fees - capitalized	(67,675)	(81,780)	(46,820)
Rent and office costs	<u>48,448</u>	<u>31,737</u>	<u>18,254</u>
	<u>\$ 213,885</u>	<u>\$ 473,181</u>	<u>\$ 82,770</u>

General and administrative expenses of \$213,885 were incurred in the six months ended June 30, 2005 (2004 - \$473,181) a 121% decrease as compared to the same quarter in 2004. During the six months ended June 30, 2004, the Company incurred expenses totaling \$350,621 related to the efforts to enhance shareholder awareness of the Company, there were no significant expense of this nature incurred to the second quarter of 2005. General and administrative expenses increased by 45% for the three months ended June 30, 2005 as compared to the first quarter of 2005.

Stock based compensation

Stock based compensation costs increased from \$58,714 in the six months ended June 30, 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. There were no options issued in the three months ended June 30, 2005.

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Net Loss

The Company had a net loss for the six months ended June 30, 2005 of \$1,450,331 or \$0.04 per share as compared to a net loss of \$596,133 for the same period in 2004. The Company's net loss is affected by items which are non-operational in nature. For the six months ending June 30, 2005 these non-cash items included depletion and depreciation and accretion expense of \$113,024 (2004 - \$156,921) stock based compensation expense of \$1,423,260 (2004 - \$58,714), and a future income tax recovery of \$64,352 (2004 - \$53,788) resulting in an adjusted net loss from operations at June 30, 2005 of \$21,601 (2004 - \$434,286).

Liquidity capital resources and financing activities

The Company had working capital of \$10,077,820 at June 30, 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 Northwest Territories. The Company's working capital at June 30, 2005 is expected to be sufficient to fund projected 2005/2006 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 June 30, 2005. Unless otherwise denoted in the June 30, 2005 interim financial statements it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from 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 six months ended June 30, 2005 were \$1,939,240 (2004 - \$1,846,543), of which \$1,529,740 or 79% (2004 - 100%) 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 \$95,827 during six months ended June 30, 2005 (2004 - \$1,913,275). During June 2005 International Frontier made a payment of \$100,000 to the patent owner of Sidox to acquire Exclusive License Canadian distribution rights for the Sidox product on behalf of Sidox Chemicals Canada Ltd. of which the Company is a 50% shareholder.

Obligations

Under the terms of the flow-through agreements undertaken in 2004 the Company had flow-through share spending obligations of \$490,210 at June 30, 2005. The Company had no debt at June 30, 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 six months ended June 30, 2005 were \$93,000 (2004 - \$68,920). Of the total consulting fees paid to related parties during the quarter, \$55,125 (2004 - \$33,440) 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.

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Outstanding shares, options and warrants

The Company's share capital structure is as follows:

As of:	June 30, 2005	August 15, 2005
Common shares outstanding	34,961,318	34,961,318
Warrants outstanding	5,806,655	2,000,000
Options outstanding	3,230,000	3,230,000
Convertible debentures	<u>233,344</u>	<u>233,344</u>
Fully diluted	<u>44,231,317</u>	<u>40,424,662</u>

There have been no additional warrants exercises subsequent to June 30, 2005. The warrants outstanding at August 15, 2005 represent 2,000,000 non-transferable performance warrants with a deemed value of \$10 representing the Company's initial investment in Sidox Chemicals Canada Ltd. in 2003. The warrants became exercisable in June 2005 when Sidox Chemicals Canada Ltd. acquired a ten year exclusive license for Sidox.

Additional details on the shares, options and warrants outstanding at June 30, 2005 are available in the notes to the June 30, 2005 interim consolidated financial statements.

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.

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.

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 June 30, 2005 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

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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 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.

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.