

**International Frontier Resources Corporation**

**Consolidated Financial Statements**

December 31, 2005

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## Auditors' Report

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

We have audited the consolidated balance sheets of **International Frontier Resources Corporation** as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The signature is written in a cursive, handwritten style in black ink. It reads "Grant Thornton LLP".

Calgary, Alberta  
April 11, 2006

Chartered Accountants

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## International Frontier Resources Corporation

### Consolidated Balance Sheets

December 31 2005 2004

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#### Assets

##### Current

Cash and cash equivalents	\$ 12,905,913	\$ 9,961,732
Receivables	1,930,590	177,595
Inventory	82,125	-
Prepays	<u>132,412</u>	<u>12,273</u>
	<b>15,051,040</b>	10,151,600
Refundable deposits (Note 5)	1,441,325	351,500
Property and equipment (Note 6)	6,998,635	4,256,207
Intangible (Note 7)	<u>45,000</u>	<u>14,201</u>
	<b>\$ <u>23,536,000</u></b>	<b>\$ <u>14,773,508</u></b>

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#### Liabilities

##### Current

Payables and accruals	\$ 288,565	\$ 214,944
Asset retirement obligations (Note 8)	201,390	232,752
Future income taxes (Note 9)	393,368	668,488
Convertible debentures (Notes 10)	<u>62,648</u>	<u>216,860</u>
	<b><u>945,971</u></b>	<b><u>1,333,044</u></b>

#### Shareholders' Equity

Share capital (Note 11)	25,111,254	15,458,255
Contributed surplus (Note 11)	3,928,117	2,588,519
Equity component of convertible debentures	2,352	8,140
Warrants (Note 11)	-	10
Deficit	<u>(6,451,694)</u>	<u>(4,614,460)</u>
	<b><u>22,590,029</u></b>	<b><u>13,440,464</u></b>
	<b>\$ <u>23,536,000</u></b>	<b>\$ <u>14,773,508</u></b>

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Contingent liabilities (Note 14)

Subsequent event (Note 18)

On behalf of the Board

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

See accompanying notes to the consolidated financial statements.

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## International Frontier Resources Corporation

### Consolidated Statements of Loss and Deficit

Years ended December 31, 2005 2004

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Revenue		
Oil	\$ 866,189	\$ 693,270
Royalties	<u>(210,111)</u>	<u>(131,939)</u>
	<b>656,078</b>	561,331
Interest and other income	<u>219,135</u>	<u>64,299</u>
	<u><b>875,213</b></u>	<u>625,630</u>
Expenses		
Field operating costs	409,408	411,930
Depletion and depreciation	203,434	1,435,685
Accretion of asset retirement obligations (Note 8)	21,711	21,004
General and administration	631,618	717,109
Stock based compensation	1,562,448	2,067,864
Write off investment	52,875	3,675
Interest and bank charges	<u>6,832</u>	<u>5,905</u>
	<u><b>2,888,326</b></u>	<u>4,663,172</u>
Loss before income taxes	<b>(2,013,113)</b>	(4,037,542)
Future income tax recovery (Note 9)	<u>(175,879)</u>	<u>(662,594)</u>
Net loss	<b>\$ (1,837,234)</b>	<b>\$ (3,374,948)</b>
Net loss per share		
Basic (Note 12)	<b>\$ (0.05)</b>	<b>\$ (0.15)</b>
Diluted (Note 12)	<b>\$ (0.05)</b>	<b>\$ (0.15)</b>
<hr/>		
Deficit, beginning of year	<b>\$ (4,614,460)</b>	\$ (1,239,512)
Net loss	<u><b>(1,837,234)</b></u>	<u>(3,374,948)</u>
Deficit, end of year	<b>\$ (6,451,694)</b>	<b>\$ (4,614,460)</b>

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See accompanying notes to the consolidated financial statements.

# International Frontier Resources Corporation

## Consolidated Statements of Cash Flows

Years ended December 31

2005

2004

### Operating

Net loss	\$ (1,837,234)	\$ (3,374,948)
Depletion and depreciation	203,434	1,435,685
Accretion of asset retirement obligations	21,711	21,004
Abandonment costs incurred (Note 8)	(69,610)	-
Stock based compensation	1,562,448	2,067,864
Gain on sale of investments	(4,746)	-
Write off investment	52,875	3,675
Future income tax recovery	<u>(175,879)</u>	<u>(662,594)</u>
	<b>(247,001)</b>	<b>(509,314)</b>
Change in non-cash operating working capital (Note 16)	<u><b>(1,090,090)</b></u>	<u>124,529</u>
	<u><b>(1,337,091)</b></u>	<u>(384,785)</u>

### Investing

Additions to petroleum and natural gas properties	(2,879,878)	(3,741,311)
Proceeds from disposition of property and equipment	57,000	-
Additions to intangibles	<u>(100,000)</u>	<u>-</u>
	<b>(2,922,878)</b>	<b>(3,741,311)</b>
Change in non-cash investing working capital (Note 16)	<u><b>(656,293)</b></u>	<u>201,730</u>
	<u><b>(3,579,171)</b></u>	<u>(3,539,581)</u>

### Financing

Shares issued for cash	9,298,589	12,808,518
Share issue costs	(295,191)	(889,151)
Convertible debentures	<u>-</u>	<u>975,000</u>
	<b>9,003,398</b>	<b>12,894,367</b>
Change in non-cash financing working capital (Note 16)	<u><b>(53,130)</b></u>	<u>22,941</u>
	<u><b>8,950,268</b></u>	<u>12,917,308</u>

Net increase in cash and cash equivalents 4,034,006 8,992,942

Cash and cash equivalents,

Beginning of year	<u>10,313,232</u>	<u>1,320,290</u>
End of year	<u><b>\$ 14,347,238</b></u>	<u><b>\$ 10,313,232</b></u>

Cash and cash equivalents are represented by:

Cash and temporary investments	\$ 12,905,913	\$ 9,961,732
Refundable deposits	<u>1,441,325</u>	<u>351,500</u>
	<u><b>\$ 14,347,238</b></u>	<u><b>\$ 10,313,232</b></u>

See accompanying notes to the consolidated financial statements.

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# **International Frontier Resources Corporation**

## **Notes to the Consolidated Financial Statements**

December 31, 2005

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### **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 two cost centres, being Canada and the United Kingdom.

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.

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### **2. Summary of significant accounting policies**

#### **Basis of presentation**

The consolidated financial statements include the accounts of the Company, its wholly owned United Kingdom subsidiary, Britcana Energy Ltd. and its 50% interest in Sidox Chemicals Canada Ltd. All inter-company transactions and balances are eliminated upon consolidation.

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

#### **Measurement uncertainty**

The preparation of consolidated financial statements requires management to make estimates that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

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

The amounts recorded relating to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 2. Summary of significant accounting policies (Continued)

#### **Petroleum and natural gas interests**

The Company follows the full cost method of accounting for petroleum and natural gas operations as determined by the Canadian Institute of Chartered Accountants ("CICA"), Accounting Guideline 16 ("AcG-16"), whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both successful and unsuccessful wells, asset retirement costs and overhead charges directly related to exploration activities. Proceeds from the sale of oil and gas properties will be applied against the capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation. For depletion and depreciation purposes, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion.

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

#### **Asset retirement obligations**

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

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

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# **International Frontier Resources Corporation**

## **Notes to the Consolidated Financial Statements**

December 31, 2005

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### **2. Summary of significant accounting policies (Continued)**

#### **Joint venture operations**

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

#### **Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders upon renouncement are recorded as an increase to future income taxes and a reduction to share capital at the time the resource expenditure deductions are renounced.

#### **Cash and cash equivalents**

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

#### **Depreciation**

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

#### **Intangible assets**

The Company's proportionate share of an exclusive licensing agreement for the Sidox product in Canada that is held by its subsidiary Sidox Chemicals Canada Ltd. The agreement covering an exclusive license for Canada has a ten-year term and costs related thereto have been amortized on a straight line basis over that period.

#### **Inventory**

Inventory includes product that is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis.

#### **Income taxes**

Income taxes are recorded using the liability method. Future income taxes are calculated based on temporary differences arising from the difference between the tax basis of an asset and liability and its carrying value using substantively enacted tax rates. Changes in income tax rates that are substantively enacted are reflected in the accumulated future income tax balances in the period the change occurs.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 2. Summary of significant accounting policies (Continued)

#### Per share amounts

The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market rate for the period.

#### Financial instruments

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

#### Stock-based compensation

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

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

#### Revenue recognition

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

#### Foreign currency translation

The accounts of the Company's foreign subsidiary are translated into Canadian dollars under the temporal method of accounting, whereby monetary items are translated at exchange rates in effect at the balance sheet date and non-monetary translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in the consolidated statement of loss and deficit.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 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. The adoption of the guideline resulted in an impairment charge relating to property and equipment (see Note 6).
- 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. The accounting policy has been adopted prospectively and had no impact on the consolidated financial statements.

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### 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"). In conjunction with this reorganization, Sidox Canada cancelled its outstanding shares and issued new shares. 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 is subject to joint control and accordingly has been proportionately consolidated in these financial statements at December 31, 2005.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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#### 4. Investment in Sidox Chemicals Canada Ltd. (Continued)

At December 31, 2005 the Company's proportionate share of balances included in these consolidated financial statements related to Sidox Canada is:

Assets		
Cash	\$	49,985
Inventory		82,125
Intangibles		<u>45,000</u>
		177,110
Liabilities		
Payables		<u>50,000</u>
Net assets	\$	<u>127,110</u>
Revenues	\$	-
Expenditures		<u>97,890</u>
Net Loss	\$	<u>97,890</u>
Cash used in operating activities	\$	(53,181)
Cash from investing activities	\$	101,793
Cash used in financing activities	\$	-

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#### 5. Refundable Deposits

As at December 31, 2005, the Company has provided an assignment of cash totalling \$58,575 (2004 - \$nil) as security on the irrevocable standby letter of credit against lease rentals on Northwest Territories Exploration License No. 391. As at December 31, 2005, no expenditures have been made and EL-391 has expired.

As at December 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 14). The work program on EL-416 and has been completed and an application has been made to refund the Company's \$41,500 deposit.

As at December 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 14).

As at December 31, 2005, the Company has provided an 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 14).

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 5. Refundable Deposits (Continued)

As at December 31, 2005, the Company has provided an 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 14).

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6. Property and equipment	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>2005 Net Book Value</u>
Petroleum and natural gas properties	\$ 8,746,086	\$ 1,775,238	\$ 6,970,848
Office furniture and equipment	<u>78,209</u>	<u>50,422</u>	<u>27,787</u>
	<u>\$ 8,824,295</u>	<u>\$ 1,825,660</u>	<u>\$ 6,998,635</u>

  

	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>2004 Net Book Value</u>
Petroleum and natural gas properties	\$ 5,807,225	\$ 1,584,321	\$ 4,222,904
Office furniture and equipment	<u>76,209</u>	<u>42,906</u>	<u>33,303</u>
	<u>\$ 5,883,434</u>	<u>\$ 1,627,227</u>	<u>\$ 4,256,207</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 \$4,901,394 (2004 - \$1,374,983) have no cost basis for income tax purposes. During the year, \$184,879 (2004 - \$59,043) of overhead expenses directly related to exploration and development activities were capitalized and \$10,529 (2004 - \$38,594) of interest expense was capitalized. Also during the year, \$72,438 (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 December 31, 2005, undeveloped properties with a cost of \$6,222,050 (2004 - \$3,550,670) included in petroleum and natural gas properties have not been subject to depletion.

As at December 31, 2005, \$44,833 (2004 - \$859,723) impairment of petroleum and natural gas assets has been recorded to reflect the excess carrying amount of assets over fair value of future reserves. This amount is included in depletion and depreciation on the consolidated statements of loss and deficit.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Increase Thereafter</u>
Crude oil BBL	\$48.74	\$48.52	\$47.28	\$45.92	\$43.71	\$44.72	2.7%

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 7. Intangible assets

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2005 Net Book Value</u>
Sidox license	\$ <u>50,000</u>	\$ <u>5,000</u>	\$ <u>45,000</u>

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2004 Net Book Value</u>
Options	\$ <u>14,201</u>	\$ <u>-</u>	\$ <u>14,201</u>

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#### 8. Asset retirement obligations

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

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ <b>232,752</b>	\$ -
Liabilities incurred	<b>16,537</b>	211,748
Liabilities settled	<b>(69,610)</b>	-
Accretion expense	<u><b>21,711</b></u>	<u>21,004</u>
Balance, end of year	\$ <u><b>201,390</b></u>	\$ <u>232,752</u>

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 9. Income taxes

- a) The total provision for income taxes differs from the expected amount calculated by applying the combined federal and provincial tax rates of approximately 33.60% (2004 - 38.50%) to loss before income taxes. This difference results from the following items:

	<u>2005</u>	<u>2004</u>
Loss before income taxes	\$ <u>(2,013,113)</u>	\$ <u>(4,037,542)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (676,406)	\$ (1,554,454)
Increase (decrease) resulting from:		
Statutory rate change	(85,000)	(1,549)
Resource allowance	8,723	50,882
Stock-based compensation	524,983	796,128
Valuation allowance	88,331	-
Other	<u>(36,510)</u>	<u>46,399</u>
Future income tax recovery	\$ <u>(175,879)</u>	\$ <u>(662,594)</u>

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

	<u>2005</u>	<u>2004</u>
Excess of carry value of property and equipment over tax values	\$ 1,168,160	\$ 1,401,078
Asset retirement obligations	(67,667)	(89,610)
Share issue costs	(252,726)	(266,071)
Non-capital losses carry-forwards	(427,793)	(361,378)
Other	<u>(26,606)</u>	<u>(15,531)</u>
	\$ <u>393,368</u>	\$ <u>668,488</u>

- c) Tax losses

The Company has incurred losses for income tax purposes of approximately \$1,531,000 (2004 - \$938,000), the related benefit of these losses has been recognized in the consolidated financial statements by reducing future income taxes. Unless sufficient taxable income is earned these losses will expire as follows:

2008	\$ 9,000
2009	90,000
2010	66,000
2011	265,000
2012	508,000
2015	<u>593,000</u>
	\$ <u>1,531,000</u>

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 10. Convertible debentures

During the year ended December 31, 2004, the balance of the remaining \$100,000 in convertible debentures issued in 2001 were converted to 222,222 common shares of the Company.

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

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

As at December 31, 2005, \$910,000 (2004 - \$750,000) of debentures had been converted into 1,512,821 (2004 - 1,249,990) common shares of the Company. At December 31, 2005, the fair value of the remaining \$65,000 of convertible debentures is approximately \$62,648.

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#### 11. Share capital

- a) **Authorized:**  
 Unlimited common shares  
 Unlimited preferred shares

b) <b>Issued:</b>	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
<b>Common shares</b>				
Beginning of year	31,956,580	\$ 15,458,255	15,034,918	\$ 3,743,098
Issued for cash	5,000	2,250	6,861,250	5,581,363
Issued upon exercise of warrants	4,183,070	3,543,848	5,217,500	2,993,425
Issued upon exercise of options	490,000	425,350	430,000	305,230
Issued upon conversion of debentures	262,818	160,000	1,472,212	850,000
Issued upon acquisition of properties	75,000	150,000	-	-
Flow-through shares, net	3,275,000	5,567,500	2,940,700	2,454,145
Tax effected share issue costs	-	(195,949)	-	(469,006)
Balance, end of year	40,247,468	\$ 25,111,254	31,956,580	\$ 15,458,255

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

### 11. Share capital (Continued)

c) Flow-through share information:	<u>2005</u>	<u>2004</u>
Carried forward from prior year	\$ 2,384,991	\$ 323,350
Amount of flow-through shares issued	5,567,500	3,990,480
Expenditures incurred	<u>(2,387,392)</u>	<u>(1,928,839)</u>
Remaining obligation	\$ <u>5,565,099</u>	\$ <u>2,384,991</u>

Under the terms of the current year flow-through agreement, the Company is required to expend \$5,565,099 (2004 - \$2,384,991) on qualifying oil and natural gas expenditures prior to December 31, 2006. As at December 31, 2005, the Company had incurred all of the 2004 requirements.

### d) Stock options:

The Company has a stock option plan available to key consultants, officers, directors, and employees of the Company. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2005, 3,320,000 common shares were reserved for issuance under the plan. Options granted under the plan vest upon granting and have a term of five years to expiry.

#### Outstanding and exercisable

	<u>2005</u>	<u>2004</u>
	Number of Options	Weighted Average Exercise Price
Beginning of year	2,810,000	\$ 1.02
Granted	1,000,000	\$ 1.80
Exercised	<u>(490,000)</u>	<u>\$ 0.41</u>
Balance, end of year	<u>3,320,000</u>	<u>\$ 1.34</u>

#### Expiry dates

	<u>2005</u>	<u>2004</u>
	Number of Options	Price
April 10, 2008	-	\$ -
December 23, 2008	690,000	\$ 0.45
January 26, 2008	90,000	\$ 0.50
April 1, 2009	90,000	\$ 0.45
November 16, 2009	650,000	\$ 1.50
December 23, 2009	800,000	\$ 1.60
February 11, 2010	900,000	\$ -
September 15, 2010	<u>100,000</u>	<u>\$ -</u>
	<u>3,320,000</u>	<u>\$ 1.34</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

**11. Share capital** (Continued)

**d) Stock options** (Continued):

**Outstanding and exercisable** (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 Exercisable Price</u>
\$0.25 - \$0.50	870,000	3.04	\$ 0.46	870,000	\$ 0.46
\$1.35 - \$1.85	<u>2,450,000</u>	<u>4.03</u>	<u>\$ 1.66</u>	<u>2,450,000</u>	<u>\$ 1.66</u>
	<u>3,320,000</u>	<u>3.77</u>	<u>\$ 1.34</u>	<u>3,320,000</u>	<u>\$ 1.34</u>

The weighted average fair market value of options granted for the year ended December 31, 2005 is \$1.56 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>2005</u>	<u>2004</u>
Risk-free interest rate	<b>3.55%</b>	3.75%
Expected life of options	<b>5</b>	5
Volatility in price of the Company's shares	<b>130.00%</b>	121.57%
Dividend yield rate	<b>0%</b>	0%

**e) Warrants:**

Warrants outstanding are as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning of year	<b>12,430,225</b>	<b>\$ 10</b>	5,420,000	\$ 10
Issued in conjunction with				
Private Placement	-	-	250,000	-
Private Placement	-	-	12,160,000	-
Flow-through shares (iii),(iv),(v)	<b>1,637,500</b>	-	1,565,225	-
Exercised	<b>(6,139,670)</b>	<b>(10)</b>	(6,915,000)	-
Expired	<b>(6,290,555)</b>	-	(50,000)	-
Balance, end of year	<u><b>1,637,500</b></u>	<u><b>\$ -</b></u>	<u>12,430,225</u>	<u>\$ 10</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

### 11. Share capital (Continued)

#### e) Warrants (Continued):

	2005			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
Private Placement (ii)*	-	\$ -	-	2,785,000	\$ 1.15	1,392,500
Private Placement (ii)*	-	\$ -	-	6,080,000	\$ 1.50	3,040,000
Flow-through Shares (iii),(iv), v)	<u>1,637,500</u>	<u>\$ 1.85</u>	<u>1,637,500</u>	<u>1,565,225</u>	<u>\$ 1.75</u>	<u>1,565,225</u>
	<u>1,637,500</u>	<u>\$ 1.85</u>	<u>1,637,500</u>	<u>12,430,225</u>	<u>\$ 1.18</u>	<u>7,997,225</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 was the issuance of 2,000,000 non-transferable performance warrants with a carrying 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.

At December 31, 2005, all of the conditions of exercise had been met and the 2,000,000 warrants were exercised at \$0.35 for total proceeds of \$700,000.

- ii) In conjunction with a private placement occurring May 17, 2004 and closing July 19, 2004, the Company issued 6,080,000 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 December 31, 2005, all of the Series "A" warrants and 1,128,200 of the Series "B" warrants have been exercised and the remaining Series "B" warrants expired on July 1, 2005.

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 11. Share capital (Continued)

##### e) 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 September 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. At December 31, 2005, 264,470 of the Series "C" warrants have been exercised and the remaining Series "C" warrants expired on October 1, 2005.
- 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. The remaining Series "C" warrants expired on July 1, 2005.
- v) In conjunction with a non-brokered private placement occurring November 3, 2005 and closing on November 24, 2005, the Company issued 3,275,000 flow-through share units at \$1.70 per unit for total proceeds of \$5,567,500. Each unit consists of one common flow-through share and one-half warrant. One full warrant entitles the holder to purchase one additional non-flow through common share at a price of \$1.85 on or before May 24, 2006.

##### f) Contributed surplus:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 2,588,519	\$ 660,135
Value attributed to stock options granted	1,562,448	2,067,864
Value of stock options exercised	<u>(222,850)</u>	<u>(139,480)</u>
Balance, end of year	<u>\$ 3,928,117</u>	<u>\$ 2,588,519</u>

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#### 12. Per share amounts

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

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2005

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#### 12. Per share amounts (Continued)

Weighted average shares outstanding:

	<u>2005</u>	<u>2004</u>
Basic, beginning of year	35,141,388	22,551,889
Shares issued pursuant to options	611,216	761,500
Shares issued pursuant to conversion of debenture	56,081	150,000
Shares issued pursuant to warrants	<u>-</u>	<u>1,500,000</u>
Diluted, end of year	<u>35,808,685</u>	<u>24,963,389</u>

In calculating diluted common share amounts for the year ended December 31, 2005, the Company excluded 3,987,500 options and warrants (2004 - 11,847,225) because the exercise price was greater than the average market price of its common shares in those years.

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#### 13. Related party transactions

During the year, the Company paid consulting fees to certain officers and directors and in 2004 debenture interest to a company controlled by a director. Royalties incurred during the year in conjunction with the Company's Royalty Incentive Plan are payable to certain officers of the Company and are included in payables and accruals at December 31, 2005. These transactions were measured at the exchange amount which approximated fair market value as set out below:

	<u>2005</u>	<u>2004</u>
Consulting fees	\$ 186,000	\$ 155,120
Royalty expense	20,835	-
Debenture interest	<u>-</u>	<u>2,000</u>
	<u>\$ 206,835</u>	<u>\$ 157,120</u>

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#### 14. 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 its proportional share of any portion of a \$1,526,430 gross 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. At December 31, 2005, EL-416 has expired.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 14. Contingent liabilities (Continued)

- 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 its proportional share of any portion of a \$24,800,000 gross work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-423.

At December 31, 2005, the Company has incurred approximately \$40,000 of qualified expenditures 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 its proportional share of any portion of a \$12,500,000 gross work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-429.

At December 31, 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 its proportional share of any portion of a \$4,000,000 gross work commitment not fulfilled. The deposit will be refunded by \$1 for every \$4 spent on qualified expenditures on EL-416.

At December 31, 2005 no qualified expenditures have been incurred on EL-432.

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### 15. Financial Instruments

As disclosed in Note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, foreign currency 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.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 16. Supplemental cash flow information

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

	<u>2005</u>	<u>2004</u>
Receivables	\$ (1,752,995)	\$ 293,218
Prepays	(120,139)	(414)
Payables and accruals	<u>73,621</u>	<u>56,396</u>
	<u>\$ (1,799,513)</u>	<u>\$ 349,200</u>
Operating activities	\$ (1,090,090)	\$ 124,529
Investing activities	(656,293)	201,730
Financing activities	<u>(53,130)</u>	<u>22,941</u>
	<u>\$ (1,799,513)</u>	<u>\$ 349,200</u>
Interest paid	<u>\$ 10,529</u>	<u>\$ 38,594</u>

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### 17. Commitments

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

2006	\$ 56,108
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### 18. Subsequent event

On January 5, 2006 the Company announced the issuance of 150,000 stock options to Directors and senior management under the Company's stock option plan. The options have an exercise price of \$1.95 per share and are subject to TSX Venture approval.

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### 19. Comparative figures

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



## Overview

International Frontier Resources Corporation is engaged in the exploration for and development of petroleum and natural gas reserves in the Northwest Territories, Canada and in the UK sector of the North Sea. The following is management's discussion and analysis ("MD&A") of International Frontier Resources Corporation's ("International Frontier" or "IFR" or "Britcana" or the "Company") operating and financial results for the period ending December 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 December 31, 2005 audited consolidated financial statements and related notes and the Company's 51-101 report filed on Sedar, and includes subsequent events to April 13, 2006.

The Company's business plan is to expose shareholders to high impact exploration opportunities that have the potential to yield significant hydrocarbon reserves in under explored hydrocarbon basins. To meet this objective in 2005 the Company increased its prospect inventory with new opportunities in the Northwest Territories and in the UK sector of the North Sea. A review of 2005 through April 15, 2006 is as follows;

### Flintstone Project, NWT

In 2005 the Summit Creek B-44 discovery well was production tested at rates of approximately 20 MMCF/D and 6,000 barrels of light condensate per day (10,000 BOEPD). The B-44 well is the first hydrocarbon discovery in the Central Mackenzie Valley since Norman Wells was discovered in 1920. The production test confirmed a new petroleum system exists south of the Norman Wells oilfield in this under-explored area where the consortium has 700,000 gross acres under lease.

In January 2006 two wells commenced drilling, the Summit Creek K-44 well appraised the discovery encountered at Summit Creek B-44 and the Stewart D-57 well tested new play concepts on the east side of the basin. As both locations are in a remote area with limited winter access production testing has been deferred until future winter drilling seasons. At the time of writing this report both wells are on confidential status.

It is worthy to note that the relationships the Company forged with the people of Tulita has served IFR and our partners well. We are pleased to report that these relationships have resulted in employment and new business opportunities for the Tulita region.

The Company holds working interests ranging from 5% to 10.875% covering 2,400 square kilometers over the central extent of this new emerging petroleum province.

### Colville Hills, NWT

In 2005 the Company increased its exposure in the Northwest Territories with the acquisition of two exploration licenses covering 326,000 gross acres in the Colville Hills area. Colville is located approximately 150 kilometers north of Summit Creek. The licenses were awarded for combined work commitments of \$16.5 million to BG Canada (a subsidiary of the British Group - 75%) and IFR (25%).

### Hay River, NWT

In 2005 the Company signed a Memorandum of Understanding ("MOU") with the Katlodeeche First Nations ("KFN"). The agreement covers KFN Reserve and Traditional lands encompassing an area of approximately 1.9 million acres immediately north of the Alberta border. The area is subject to a moratorium on oil and gas activity until land claims are settled with the Federal Government. This strategic MOU provides IFR with the right to acquire modern seismic on KFN lands in advance of the moratorium be lifted.



### [North Sea - UKCS](#)

In 2005 a new exploration area was added with the acquisition of an interest in four North Sea licenses. The Company views the North Sea as an area in which it can be competitive in acquiring high impact exploration prospects. Exploration Geosciences, who have acted as the Company's technical advisors since inception, have an excellent working knowledge of the North Sea and access to 2D & 3D seismic at reasonable costs.

In Q1, 2006 a joint venture agreement was signed with Nippon Oil Exploration UK (operator), Hunt Petroleum UK, Palace Exploration Ltd. and Exploration Geosciences Ltd. (prospect generators). We anticipate that the joint venture will provide a steady stream of new opportunities for IFR's wholly owned UK subsidiary Britcana Energy Ltd.

### [Financial](#)

At December 31, 2005 the Company's working capital was \$16,204,000 (2004 – \$10,288,000) of which \$1,441,325 (2004 – \$351,500) has been lodged as security against refundable deposits in the Northwest Territories. Based on current capital expenditure projections the Company has sufficient working capital to fund anticipated 2006 exploration programs in the Northwest Territories and North Sea.

### [Operations Review](#)

#### [Central Mackenzie Valley, NWT](#)

In Q-1, 2005 testing operations on the Summit Creek B-44 discovery well were completed at a cost of approximately \$17 million, \$850,000 net to IFR. Two intervals in the Devonian were tested at combined rates of 20 MMCF/D and 6,000 barrels of 55 degree condensate (10,000 BOEPD).

In Q-1, 2005 drilling operations were completed on the Sah Cho L-71 exploration well at a cost of approximately \$18.5 million, \$900,000 net to IFR. The well evaluated a structure located eight kms south-east of Summit B-44. The middle and lower Devonian were drill stem tested yielding non-commercial hydrocarbons and water. The operator is evaluating a possible re-entry to evaluate un-tested reservoir, which if proposed will require partner approval.

In Q-3, 2005 a 180 km 2D seismic survey was shot on the south half of EL-397 at a gross cost of \$8 million, \$400,000 net to IFR. To date the consortium has acquired over 1,100 kms of 2D seismic at an approximate cost of \$25 million (gross); interpretation of seismic data has identified a number of un-drilled structures on our acreage portfolio. In Q3, 2006 200 kms of new seismic will be shot on EL-423, a license acquired two years ago for a work commitment of \$24.8 million.

In Q1, 2006 the Company participated for a 5% interest in the Husky et al Summit Creek K-44 appraisal well located on EL-397. The K-44 was drilled to a depth of 3240 meters, the well evaluated reservoirs encountered in the Summit Creek B-44 discovery well. The Company also participated for a 7.5% interest in the Husky et al Stewart D-57 exploration well located on TDL Freehold parcel M-37. The D-57 well is located approximately 45 kms east of Summit Creek, the well was drilled to 3100 meters and it evaluated the east side of the basin. The cost of this winter's operation is estimated at \$55 million, \$3.4 million net to IFR.

#### [Colville Hills, NWT](#)

In May 2005 IFR (25%) and BG Canada (75% - operator) were awarded two exploration licenses covering 326,000 acres for work commitments of \$12.5 million on EL-429 and \$4 million on EL-432. In 2006 an areomag survey will be acquired, this data will assist in planning a 2D seismic program for acquisition in 2007.



### Operations Review (continued)

#### *Hay River, NWT*

In 2005 the Company acquired 2D seismic trade data and commissioned a hydrodynamic study incorporating adjacent oil and gas fields in northern Alberta. In 2006 geological and geophysical mapping will be completed.

#### North Sea – UKCS

The Company, through its wholly owned U.K. subsidiary, Britcana Energy Ltd. (“Company”), acquired interests in the following four North Sea Licenses;

#### *Laurel Valley Prospect – Quad 14*

The Company committed to pay 15% of the cost to drill, test, complete or abandon the Laurel Valley #1 well to earn 11.25% in Quad 14. In addition the Company holds an option to pay an additional 25% of the Laurel Valley #1 well costs to earn a 25% interest in the Quad 14 acreage (65,000 acres). Subsequent to year end the Company exercised its option and farmed out 30% of the well costs to third parties who will earn 21.25%.

The Laurel Valley prospect is targeting three prospective reservoirs with estimated potential unrisks reserves in the 300 MMBO to 600 MMBO range. In Q1, 2006 a site survey was completed and the prospect is now drill ready.

#### *Lytham – St. Anne Prospect – Quad 41/42*

The Company committed to pay 10% of the cost to drill, test, complete or abandon the Lytham #1 well to earn 7.5% in the Quad 41/42 acreage. In addition the Company holds an option to pay an additional 25% of well costs to earn 18.75% in the Quad 41/42 acreage (240,000 acres). Subsequent to year end the Company exercised its option and farmed out 30% of the well costs to third parties who will earn 20%.

The Lytham #1 well is targeting estimated potential unrisks gas reserves in the 250 BCF to 600 BCF range. In Q1, 2006 a drilling site survey was completed and the prospect is drill ready.

#### *Ridgewood Prospect – Block 12/17*

Block 12/17 covering an area of 17,900 acres was acquired at the 23<sup>rd</sup> licensing round announced in September 2005. The promote license was awarded to IFR 50% and Palace Exploration 50%. A prospect has been mapped with estimated potential unrisks reserves in the 25 MMBO to 110 MMBO range.

#### *Gleneagles Prospect – Block 12/23*

The Company holds a 5% interest in block 12/23 that was acquired as a promote license at the 23<sup>rd</sup> licensing round. The block was acquired on the basis of potential by-passed-pay in a well located on the block. Endeavour Energy has been appointed operator.

### SIDOX

In Q-2, 2005 the Company and Enhanced Recovery Systems Ltd., entered into a 50/50 shareholding in Sidox Chemicals Canada Ltd. (“SCC”). SCC holds an exclusive ten year license for the Sidox technology in Canada. In 2004/05 Sidox was field tested in the Company’s Alderson (100%) oil pool, located in the Brooks area of southern Alberta. Field testing showed encouraging results as oil rates increased and water cuts decreased. The Company recently entered into an arrangement with a major producing Company to test Sidox in three of their wells, testing is scheduled to commence in Q2, 2006.



**Annual Results**

***Revenue and Pricing***

The following table summarizes results for the years 2005, 2004, and 2003.

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sales volumes – BOE/day	50	45	-
Oil Revenues, net	\$ 656,078	\$ 561,331	\$ -
Net loss	\$ (1,837,234)	\$ (3,374,948)	\$ (963,170)
Net loss per share – basic	\$ (0.05)	\$ (0.15)	\$ (0.10)
– diluted	\$ (0.05)	\$ (0.15)	\$ (0.10)
Total assets	\$ 23,536,000	\$ 14,773,508	\$ 3,557,170
Working capital	\$ 16,204,000	\$ 10,288,000	\$ 1,369,000
Flow through share obligations	\$ 5,567,500	\$ 3,990,480	\$ 323,350

***Sales Volumes***

Sales volumes for 2005 were 50 BOE per day, up 4 BOE per day or 9% compared with the 46 BOE per day in 2004. Increase in sales volumes in 2005 mainly is due to the fact that the properties were purchased in April of 2004, therefore, there was not a full twelve months of production for the year ended December 31, 2004.

***Gross Revenues***

Gross revenues in 2005 were \$866,000 up \$173,000 or 20% from \$693,000 in 2004. Increase in 2005 gross revenues was due to a 12% increase in average price per BOE received of \$47.38 per barrel compared to \$41.69 per barrel in 2004. Interest income generated from short term investments was \$219,000 in 2005 up \$155,000 or 242% from \$64,000 for the year ended December 31, 2004. The increase in interest income is due to interest earned on cash balances resulting from investments on funds raised through financing activities in 2004 and 2005.

***Royalty Expense***

Gross overriding royalty costs were \$210,000 or 24% of gross revenues in 2005 as compared with \$132,000 or 19% of gross revenues in 2004. The increase in royalties in 2005 is due to increased oil prices combined with increased production received in during the year ended December 31, 2005 as compared to the same period in 2004. In addition royalties of \$29,773 (2004 – \$nil) were paid to certain officers, directors and consultants in accordance with the Company's Royalty Incentive Plan.

***Operating expenses***

During 2005 the Company incurred operating expenses of \$409,000 (2004 – \$412,000). Operating costs per BOE remained relatively consistent during the year averaging \$22.40 per BOE throughout 2005 as compared to \$24.77 per BOE in 2004. Operating costs were abnormally high during field testing of Sidox in 2004 as certain non-recurring expenditures were incurred during the research and development phase.



**Annual Results (continued)**

***Depletion and depreciation***

Depletion, depreciation at December 31, 2005 consists of depletion and depreciation of property and equipment of \$158,000 (2004 – \$576,000; 2003 – \$4,700) and a \$45,000 (2004 – \$795,500; 2003 – \$nil) and an impairment loss which represents the amount by which the carrying amount of capitalized costs related to producing properties in Alberta exceeds fair value of the reserves as estimated by McDaniel's & Associates at December 31, 2005. The carrying value of properties in the exploration stage in the Northwest Territories of \$6,222,000 (December 31, 2005) have been excluded in the depletion calculation at December 31, 2005. A separate impairment test has been performed on these properties and no impairment exists at December 31, 2005. Also included in depletion and depreciation at December 31, 2005 is an impairment loss of \$nil (2004 – \$64,000; 2003 – \$nil) related to a write down on unproven properties in which the Company has dropped its interests.

***General and administrative expenses***

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Investor relations	\$ 50,648	\$ 351,826	\$ 166,737
Filing and transfer fees	26,444	55,151	205
Professional fees	151,875	73,210	55,334
Consulting fees - gross	326,196	249,166	124,551
Consulting fees - capitalized	(105,625)	(158,730)	(60,604)
Rent and office costs	144,272	146,486	65,095
Part 12.6 Tax	37,808	-	-
	<b>\$ 631,618</b>	<b>\$ 717,109</b>	<b>\$ 351,318</b>

General and administrative expenses decreased by \$85,491 or 12% to \$631,618 for the year ended December 31, 2005 as compared to \$717,109 for 2004. The most significant item included in General and administrative expenses for the year ending December 31, 2004 were expenses of \$351,826 related to efforts to enhance shareholder awareness of the Company. Costs related to investor relations decreased by \$301,178 in 2005 to \$50,648 at December 31, 2005.

The remaining amounts in general and administrative expenses for the year ended 2005 were \$580,970 (2004 – \$365,283, 2003 – \$184,581). The increase in general and administrative costs is due to increased TSX-V filing fees, legal fees associated with private placements and a general increase in professional fees in 2005.

***Stock based compensation***

The Company expenses stock compensation costs for directors, officers, employees and consultants. Stock based compensation costs decreased by \$505,000 or 24% from \$2,068,000 in 2004 to \$1,562,000 for the year end December 31, 2005 (2003 – \$735,000). Decrease in 2005 due to a fewer number of options issued to officers, directors, employees and consultants during the year ended December 31, 2005. In addition to this, the expense for 2004 reflects the Company's prospective adoption in the fourth quarter of 2003 of the change in accounting policy with respect to stock based compensation as described in Notes 2 and 3a) to the financial statements.

***Net Loss***

The Company had a net loss of \$1,837,000 or \$0.05 per share in 2005, compared to \$3,375,000 or \$0.15 per share in 2004. The Company's net loss is affected by items which are non-operational in nature. At December 31, 2005 these non-cash items included depletion and depreciation and accretion expense of \$225,000 (2004 – \$1,457,000), abandonment costs incurred of \$69,000 (2004 – \$nil), stock based compensation expense of \$1,562,000 (2004 – \$2,068,000), write off of investment of \$52,875 (2004 – \$3,675), gain on sale of investment of 4,700 (2004 – \$nil) and a future income tax recovery of \$176,000 (2004 – \$663,000) resulting in an adjusted net loss from operations at December 31, 2005 of \$247,000 (2004 – \$509,325).



### Liquidity capital resources and financing activities

The Company had working capital of \$16,204,000 at December 31, 2005 as compared to \$10,288,000 at December 31, 2004, of which \$1,441,325 (2004 – \$351,500) has been lodged as security against refundable deposits in the Northwest Territories. Included in working capital at December 31, 2005 is a \$1,753,000 increase in accounts receivable from \$178,000 at December 31, 2004 to \$1,931,000 at December 31, 2005. The increase in accounts receivable at December 31, 2005 is mainly attributable to a \$900,000 receivable from joint venture partners with respect to 2006 TDL Freehold Lease rentals paid by the Company on behalf of the NWT consortium in 2005; and \$700,000 in cash calls paid in 2005 with respect to 2006 drilling program in the Central Mackenzie Valley, NWT. In addition, increase in working capital at December 31, 2005 as compared to 2004 includes an increase in cash and cash equivalents of \$4,000,000 generated from financing activities as described below:

- On November 3, 2005, the company entered in a non-brokered private placement for 3,275,000 flow through units at a price of \$1.70 per unit for net proceeds of \$5,307,000
- 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 6,080,000 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.

The Company has sufficient working capital to meet all commitments to which it is currently committed.

### 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 consolidated financial statements at December 31, 2005. Unless otherwise denoted in the December 31, 2005 consolidated 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 year ended 2005 were \$2,880,000 (2004 – \$3,740,000) of which \$2,265,000 or 76% (2004 – 29%) related to exploration activities in the Central Mackenzie River Valley. Operations in this area are expensive and of a high risk nature that could create conditions that could alter the plans of the Company and its partners. Further, should commercial quantities of petroleum and natural gas be proven to exist in the area, the timing of revenue generation is dependent on a variety of factors not within control of the Company.

### Obligations

Under the terms of the flow-through agreements undertaken in 2005 the Company had flow-through share spending obligations of \$5,567,500 at December 31, 2005. The Company had no debt at December 31, 2005. The Company has sufficient working capital and future cash flow to meet its flow through share obligations.



### **Related Party Transactions**

Certain officers and directors provide professional, consulting and management services to the Company and are eligible to receive royalties per the Company's Royalty Incentive Plan. The amounts paid to these officers and directors during the year ended December 31, 2005 were \$206,835 (2004 – \$155,120). Of the total consulting fees paid to related parties during the year, \$93,375 (2004 –\$90,230) was capitalized to Property and equipment at December 31, 2005. During 2004 debenture interest in the amount of \$2,000 was paid to a company controlled by a director, no such payments were made in 2005.

### **Quarterly Results**

#### **Fourth Quarter**

The following summarizes the results for the three months ended December 31, 2005 compared with the same period in 2004.

#### ***Sales Volumes***

Sales volumes for the fourth quarter of 2005 were 45 BOE per day, down 16 BOE per day or 26% compared with the 61 BOE per day in the fourth quarter of 2004. Decrease in sales volumes 2005 is due to fewer wells operating at December 31, 2005.

#### ***Gross Revenues***

Gross revenues were \$192,000 in the fourth quarter of 2005 down \$32,700 or 15% from the \$224,700 in 2004 due to decreased volumes as discussed above and mitigated by a 13% increase in average price per BOE received in the three months ended December 31, 2005 at \$46.04 per barrel as compared to \$40.11 per barrel in the third quarter of 2004.

The Company also generated interest income from short term investments of \$45,200 in the third quarter of 2005 up \$1,900 from \$43,300 for the three months ended December 31, 2004. The interest income received by the Company is directly related to interest earned on investment of funds raised through financing activities during 2004 and 2005.

#### ***Royalty Expense***

Gross overriding royalty costs were \$42,400 or 22% in the fourth quarter of 2005 as compared with \$44,000 or 20% in the same quarter in 2004. The increase in royalty rates is due mainly to increased prices on production received in 2005.

#### ***Operating expenses***

Production expenses were \$139,000 or \$24.77 per BOE for the three months ended December 31, 2004 as compared with \$81,000 or \$19.39 per BOE in 2005. This decrease of \$58,000 or 72% was due primarily to increased costs incurred in 2004 during the first phase of the Sidox pilot project.

#### ***Depletion and Depreciation***

Depletion and depreciation on oil and gas properties before impairment loss of \$884,000 was \$81,000 in the fourth quarter of 2004 or \$14.60 per BOE compared with \$7.61 per BOE or \$31,700 before an impairment loss of \$24,340 in the fourth quarter of 2005. The decrease in 2005 is mainly due to decrease in reserves at December 31, 2005 and a decrease in production volumes for the three months ended December 31, 2005 resulting in a lower depletion rate.

#### ***Accretion of asset retirement obligation***

The accretion of asset retirement obligations remained relatively constant in the third quarter of 2005 at \$5,180 as compared to \$5,120 in the same quarter in 2004.



**Quarterly Results (continued)**

***General and Administrative Costs:***

General and administrative expenses were \$326,700 for the fourth quarter of 2005 up \$154,700 or 94% compared with \$172,000 in 2004. This increase is primarily a result of increases in professional fees accrued in the fourth quarter of 2005 as compared to 2004.

***Stock based compensation***

There were no stock options issued or exercised in the fourth quarter of 2005, therefore, no stock based compensation costs were booked for the three months ended December 31, 2005 as compared to stock based compensation costs of \$2,009,000 in the fourth quarter of 2004 as a result of 1,450,000 options issued to officers, directors, employees and consultants in the three months ended December 31, 2004.

***Net Income (Loss)***

The Company had a net loss of \$228,000 or \$0.01 per share in the fourth quarter of 2005 compared with a net loss of \$2,540,000 or \$0.15 per share for the same period in 2004. The improvement in the net loss is due primarily to the fact that no stock based compensation costs were incurred in the fourth quarter of 2005 along with increased net revenues in 2005 offset by an increased future income tax expense for the three months ended December 31, 2005.

The Company's net loss is affected by items which are non-operational in nature. For the three months ended December 31, 2005 these non-cash items included depletion and depreciation and accretion expense of \$58,000 (2004 – 947,000) stock based compensation expense of \$nil (2004 – \$2,009,150), write off of investment of \$52,875 (2004 – \$3,675) and a future income tax recovery of \$121,000 (2004 – \$507,700) resulting in an adjusted net loss from operations for the fourth quarter ended December 31, 2005 of \$238,125 (2004 – \$87,875).

**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>Dec. 31, 2005</b>	<b>Sept 30, 2005</b>	<b>June 30, 2005</b>	<b>March 31, 2005</b>
Sales volumes – Bbl/day	45	51	56	50
Revenues, net	119,586	281,853	242,202	186,395
Net loss	(228,373)	(158,531)	(2,314)	(1,447,315)
Net loss per share – basic	(0.01)	(0.04)	(0.00)	(0.04)
– diluted	(0.01)	(0.04)	(0.00)	(0.04)
Total assets	23,536,000	17,796,340	17,802,253	17,715,050
Working capital	16,204,000	9,635,305	9,977,820	12,165,397
Refundable Deposits	1,441,325	1,382,750	1,382,750	351,500
Net cash generated (loss) from operations	(238,125)	65,489	27,992	(10,436)



**Summary of Quarterly Results (continued)**

	<b>Dec. 31, 2004</b>	<b>Sept 30, 2004</b>	<b>June 30, 2004</b>	<b>March 31, 2004</b>
Sales volumes – BOE/day	60	68	-	-
Revenues, net	224,806	278,121	121,469	1,234
Net loss	(2,540,027)	(238,788)	(265,074)	(331,059)
Net loss per share – basic	(0.15)	(0.00)	(0.01)	(0.02)
– diluted	(0.15)	(0.00)	(0.01)	(0.02)
Total assets	14,773,508	10,489,813	7,435,380	3,552,399
Working capital	9,954,156	5,222,766	2,449,190	1,069,415
Refundable deposits	351,500	351,500	602,426	292,426
Total cash	10,288,000	5,574,266	3,101,616	1,361,841
Net cash generated (loss) from operations	(87,875)	12,910	(134,290)	(299,996)

**Other Items**

***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 December 31, 2005 audited consolidated financial statements Note 3 “Change in Accounting Policy” for detailed discussion of the above mentioned accounting changes.

***Outstanding shares, options and warrants***

The Company’s share capital structure is as follows:

<b>As of:</b>	<b>December 31, 2005</b>	<b>April 13, 2006</b>
Common shares outstanding	40,247,468	40,247,468
Warrants outstanding	1,637,500	1,637,500
Options outstanding	3,320,000	3,420,000
Convertible debentures	100,000	100,000
<b>Fully diluted</b>	<b>45,304,968</b>	<b>45,404,968</b>

There have been no additional warrants exercised subsequent to December 31, 2005. The warrants outstanding at April 13, 2006 represent the 1,637,500 warrants issued pursuant to the private placement completed on November 2, 2005.

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

### ***Disclosure Controls***

At December 31, 2005 the Company has carried out an evaluation under the supervision and with the participation of its Management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. ('Disclosure Controls'), as defined under rules adopted by the Canadian Securities Administrators. Based upon its evaluation, the Company has concluded that, subject to the inherent limitations discussed below, as of December 31, 2005, the disclosure controls and procedures were effective in all material respects.

Disclosure Controls are procedures designed to ensure that information required to be disclosed in the documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, to allow timely decisions regarding required disclosure.

The Company's management does not expect that the Company's disclosure controls will prevent or detect all error and fraud. Due to inherent limitation in all controls systems, an evaluation of controls can provide only a reasonable, not absolute, assurance that all control issued and instances of fraud or error, if any, within the Company have been detected.

### **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.



### **Forward Looking Statements (continued)**

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 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 [www.sedar.com](http://www.sedar.com)