International Frontier Resources Corporation

Interim Consolidated Financial Statements

September 30, 2006

Contents

International Frontier Resources Corporation
Consolidated Interim Financial Statements
For the nine month interim period ended September 30, 2006

(unaudited – prepared by Management)

National Instrument 51-102 Notice

The consolidated interim financial statements of International Frontier Resources Corporation ("the Company") as at September 30, 2006 have been compiled by management.

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

International Frontier Resources Corporation
Consolidated Interim Balance Sheets
(unaudited – prepared by Management)

	September 30, 2006	December 31, 2005
Assets		
Current		
Cash and cash equivalents	**$ 12,807,692**	$ 12,905,913
Receivables	**794,031**	1,930,590
Inventory	**82,125**	82,125
Prepaids	**73,606**	132,412
	13,757,454	15,051,040
Refundable deposits (Note 4)	**1,538,125**	1,441,325
Property and equipment (Note 5)	**10,591,191**	6,998,635
Intangibles (Note 6)	**41,250**	45,000
	$ 25,928,020	$ 23,536,000
Liabilities		
Current		
Payables and accruals	**$ 217,165**	$ 288,565
Asset retirement obligations (Note 7)	**239,059**	201,390
Future income taxes (Note 8)	**2,100,999**	393,368
Convertible debentures (Notes 9)	**62,648**	62,648
	2,619,871	945,971
Shareholders' Equity		
Share capital (Note 10)	**26,413,853**	25,111,254
Contributed surplus (Note 10)	**4,169,281**	3,928,117
Equity component of convertible debentures	**2,352**	2,352
Deficit	**(7,277,337)**	(6,451,694)
	23,308,149	22,590,029
	$ 25,928,020	$ 23,536,000

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 interim consolidated financial statements.

International Frontier Resources Corporation
Interim Statements of Loss and Deficit
(unaudited – prepared by Management)

	Three Months ended September, 2006	2005	Nine Months Ended September 30, 2006	2005
Revenue				
Oil and Gas	$ **268,226**	$ 279,325	$ **774,185**	$ 674,424
Less: royalties	**(58,233)**	(57,593)	**(161,312)**	(137,932)
	209,993	221,732	**612,873**	536,492
Interest and other income	**295,201**	60,121	**481,445**	173,958
	505,194	281,853	**1,094,318**	710,450
Expenses				
Operating Costs	**113,825**	119,515	**298,606**	312,626
Depletion and depreciation	**519,976**	97,599	**935,361**	199,273
Accretion of asset retirement Obligations	**5,335**	5,180	**16,224**	16,531
General and administration	**101,913**	95,054	**398,828**	304,858
Stock based compensation	**229,859**	111,400	**424,539**	1,534,660
Interest and bank charges	**2,206**	1,796	**9,452**	5,875
	973,114	430,544	**2,083,010**	2,373,823
Loss before income taxes	**(467,920)**	(148,691)	**(988,692)**	(1,663,373)
Income taxes (recovery)	**4,982**	9,840	**(163,049)**	(54,512)
Net loss	**$ (472,902)**	$ (158,531)	**$ (825,643)**	$ (1,608,861)
Loss per share				
Basic (Note 11)	**$ (0.01)**	$ (0.04)	**$ (0.02)**	$ (0.04)
Diluted (Note 11)	**$ (0.01)**	$ (0.04)	**$ (0.02)**	$ (0.04)

	2006	2005
Deficit, beginning of period	**$ (6,451,694)**	$ (4,614,459)
Net loss	**(825,643)**	(1,608,861)
Deficit, end of period	**$ (7,277,337)**	$ (6,223,321)

See accompanying notes to the interim consolidated financial statements.

International Frontier Resources Corporation

Interim Statements of Cash Flows

(unaudited – prepared by Management)

	Three Months ended September 30, 2006	Three Months ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Increase (decrease) in cash and cash equivalents				
Operating				
Net loss	**$ (472,902)**	$ (158,531)	$ **(825,643)**	$ (1,608,861)
Depletion and depreciation	**519,976**	97,599	**935,361**	199,273
Accretion of asset retirement	**5,335**	5,180		
Obligations	-	-	**16,224**	16,531
Stock based compensation	**229,859**	111,400	**424,539**	1,534,660
Gain on sale of investment	-	-	-	(4,746)
Income tax (recovery)	**4,982**	9,840	**(163,049)**	(54,512)
Cash flow from operating activities	**287,250**	65,488	**387,432**	82,345
Change in non-cash operating working capital (Note 15)	**(197,035)**	(88,669)	**381,806**	(221,923)
	90,215	(23,181)	**769,238**	(139,578)
Investing				
Additions to petroleum and natural gas properties	**(347,240)**	(411,752)	**(4,504,011)**	(2,183,544)
Investment in Sidox Chemicals Canada Inc.	**-**	-	**-**	(235,000)
Change in non-cash investing working capital (Note 15)	**(463,209)**	(13,280)	**742,789**	(243,170)
	(810,449)	(425,032)	**(3,761,222)**	(2,661,714)
Financing				
Private placements	**101,250**	3,750	**2,990,563**	3,048,598
Convertible debentures	-	-	-	-
Deferred financing charge	-	-	-	-
Change in non-cash financing working capital (Note 15)	-	-	**-**	(53,130)
	101,250	3,750	**2,990,563**	2,995,468
Net decrease in cash and cash equivalents	**(618,984)**	(444,463)	**(1,421)**	194,176
Cash and cash equivalents, Beginning of period	**14,964,801**	10,951,872	**14,347,238**	10,313,233
End of period	**$ 14,345,817**	$10,507,409	**$ 14,345,817**	$ 10,507,409
Cash and cash equivalents is represented by:				
Cash and temporary investments			**$ 12,807,692**	$ 9,124,659
Refundable deposits			**1,538,125**	1,382,750
			$ 14,345,817	$ 10,507,409

See accompanying notes to the interim consolidated financial statements.

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.

2. Summary of significant accounting policies

The consolidated financial statements include the accounts of the Company, it's 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 interim consolidated 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, 2005. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2005.

3. 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 September 30, 2006.

3. Investment in Sidox Chemicals Canada Ltd. (continued)

The Company's proportionate share of balances included in these consolidated financial statements related to Sidox Canada is:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Assets		
Cash	$ 49,990	$ 49,985
Inventory	82,125	82,125
Intangibles	41,250	45,000
	173,365	177,110
Liabilities		
Payables	71,440	50,000
Net assets	$ 101,925	$ 127,110
Revenues	$ -	$ -
Expenditures	26,242	97,890
Net Loss	$ 26,242	$ 97,890
Cash from (used) in operating activities	$ 15	$ (53,181)
Cash from investing activities	$ -	$ 101,793
Cash used in financing activities	$ -	$ -

4. Refundable Deposits

As at September 30, 2006, the Company has provided an assignment of cash totalling $310,000 (2005 - $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 September 30, 2006, the Company has provided an assignment of cash totalling $781,250 (2005 - $781,250) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 429 (see Note 13).

As at September 30, 2006, the Company has provided an assignment of cash totalling $250,000 (2005 - $250,000) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 432 (see Note 13).

As at September 30, 2006, the Company has provided an assignment of cash totalling $196,875 (2005 - $nil) as security on the irrevocable standby letter of credit against refundable deposits on Northwest Territories Exploration License No. 441 (see Note 13).

5. Property and equipment

September 30, 2006	**Cost**	**Depletion and Depreciation**	**Accumulated Net Book Value**
Petroleum and natural gas properties	**$ 13,270,254**	**$ 2,702,181**	**$ 10,568,073**
Office furniture and equipment	**78,209**	**55,091**	**23,118**
	$ 13,348,463	**$ 2,757,272**	**$ 10,591,191**

December 31, 2005	Cost	Depletion and Depreciation	Accumulated Net Book Value
Petroleum and natural gas properties	$ 8,746,086	$ 1,775,238	$ 6,970,848
Office furniture and equipment	78,209	50,422	27,787
	$ 8,824,295	$ 1,825,660	$ 6,998,635

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 $8,983,720 (2005 - $4,901,394) have no cost basis for income tax purposes. During the period, $113,157 (2005 - $184,879) of overhead expenses directly related to exploration and development activities in the Northwest Territories and $214,820 (2005 -$27,500) related to exploration and development activities in the North Sea were capitalized. At September 30, 2006 $4,630 (2005 - $10,529) of interest expense was capitalized. Also during the period, $Nil (2005 - $72,438) of expenses incurred in conducting a pilot project to test the Sidox product were capitalized to petroleum and natural gas properties.

As at September 30, 2006, undeveloped properties, mainly in the Northwest Territories, with a cost of $9,972,130 (2005 - $6,222,050) included in petroleum and natural gas properties have not been included in the cost pool for purposes of calculating depletion.

As at September 30, 2006, $Nil (2005 - $44,833) impairment of petroleum and natural gas assets has been recorded to reflect the excess carrying amount of assets over fair value of future reserves. In addition at September 30, 2006 $834,415 (2005 - $nil) impairment of petroleum and natural gas assets included in undeveloped properties has been recorded. These amounts are included in depletion and depreciation on the consolidated statements of loss and deficit.

6. Intangible Assets

September 30, 2006	Cost	Accumulated Depletion and Depreciation	Net Book Value
Sidox license	**$ 45,000**	**$ 3,750**	**$ 41,250**

December 31, 2005	Cost	Accumulated Depletion and Depreciation	Net Book Value
Sidox license	$ 50,000	$ 5,000	$ 45,000

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 is approximately $472,500. 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:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Balance, beginning of year	**$ 201,390**	$ 232,752
Liabilities incurred	**21,445**	16,537
Liabilities settled	**-**	(69,610)
Accretion expense	**16,224**	21,711
Balance, end of period	**$ 239,059**	$ 201,390

8. 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% (2005 - 33.60%) to loss before income taxes. This difference results from the following items:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Loss before income taxes	**$ (1,212,062)**	$ (2,013,113)
Expected tax recovery at combined federal and provincial statutory rates	**$ (407,253)**	$ (676,406)
Increase (decrease) resulting from:		
Statutory rate change	**-**	(85,000)
Resource allowance	**4,526**	8,723
Stock-based compensation	**217,697**	524,983
Valuation allowance	**95,484**	88,331
Other	**(73,503)**	(36,510)
Future income tax recovery	**$ (163,049)**	$ (175,879)

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

	September 30, 2006	December 31, 2005
Excess of carry value of property and equipment over tax values	**$ 2,876,350**	$ 1,168,160
Asset retirement obligations	**(80,324)**	(67,667)
Share issue costs	**(427,793)**	(252,726)
Non-capital losses carry-forwards	**(237,848)**	(427,793)
Other	**(29,386)**	(26,606)
	$ 2,100,999	$ 393,368

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 one, $0.65 per share in year two, $0.70 per share in year three and $0.75 per share in year four.

During the period ended December 31, 2005 $910,000 of debentures had been converted into 1,512,821 common shares of the Company. There were no debentures converted for the three month period ended September 30, 2006. At September 30, 2006, the fair value of the remaining $65,000 of convertible debentures is approximately $62,648.

9. Convertible debentures (continued)

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.

10. Share capital

a) Authorized:

Unlimited common shares
Unlimited preferred shares

b) Issued:

	September 30, 2006			December 31, 2005		
	Number of Shares		**Amount**	Number of Shares		Amount
Common shares						
Beginning of year	**40,247,468**	**$**	**25,111,254**	31,956,580	$	15,458,255
Issued for cash	-		-	5,000		2,250
Issued upon exercise of warrants	**1,521,250**		**2,814,313**	4,183,070		3,543,848
Issued upon exercise of options	**275,000**		**359,625**	490,000		425,350
Issued upon conversion of debentures	-		-	262,818		160,000
Issued upon acquisition of properties	-		-	75,000		150,000
Flow-through shares	-			3,275,000		5,567,500
Tax effected flow-through shares	-		**(1,870,680)**	-		-
Tax effected share issue costs	-		**(659)**	-		(195,949)
Balance, end of period	**42,043,718**	**$**	**26,413,853**	40,247,468	$	25,111,254

10. Share capital (continued)

c) 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 September 30, 2006, 3,395,000 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	September 30, 2006 Number of Options	September 30, 2006 Weighted Average Exercise Price	December 31, 2005 Number of Options	December 31, 2005 Weighted Average Exercise Price
Beginning of year	**3,320,000**	**$ 1.34**	2,810,000	$ 1.02
Granted	**500,000**	**$ 1.57**	1,000,000	$ 1.80
Expired	**(150,000)**	**$ 1.73**	-	$ -
Exercised	**(275,000)**	**$ 0.64**	(490,000)	$ 0.41
Balance, end of period	**3,395,000**	**$ 1.41**	3,320,000	$ 1.34

Expiry dates	September 30, 2006 Number of Options	September 30, 2006 Price	December 31, 2005 Number of Options	December 31, 2005 Price
December 23, 2008	**465,000**	**$ 0.45**	690,000	$ 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	**550,000**	**$ 1.50**	650,000	$ 1.50
December 23, 2009	**800,000**	**$ 1.60**	800,000	$ 1.60
February 11, 2010	**800,000**	**$ 1.85**	900,000	$ 1.85
September 15, 2010	**100,000**	**$ 1.35**	100,000	$ 1.35
January 3, 2011	**150,000**	**$ 1.95**	-	$ -
July 11, 2011	**350,000**	**$ 1.40**	-	$ -
	3,395,000	**$ 1.41**	3,320,000	$ 1.34

Exercise Price	Options Outstanding: Options Outstanding	Options Outstanding: Weighted Average Contractual Life (years)	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Options Exercisable	Options Exercisable: Weighted Average Exercisable Price
$0.45 - $0.50	645,000	2.03	$ 0.46	645,000	$ 0.46
$1.35 - $1.95	2,750,000	2.64	$ 1.64	2,750,000	$ 1.64
	3,395,000	2.53	$ 1.41	3,395,000	$ 1.41

10. Share capital (continued)

c) Stock options:

The weighted average fair market value of options granted in the period ended September 30, 2006 is $1.29 per option (2005 - $1.56 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:

	September 30, 2006	December 31, 2005
Risk-free interest rate	**4.20%**	3.55%
Expected life of options	**5**	5
Volatility in price of the Company's shares	**133.00%**	130.00%
Dividend yield rate	**0%**	0%

d) Warrants:

Warrants outstanding are as follows:

	September 30, 2006		December 31, 2005	
	Number of Warrants	**Amount**	Number of Warrants	Amount
Balance, beginning of year	**1,637,500**	**$ -**	12,430,225	$ 10
Issued in conjunction with Flow-through shares (iv)	**-**	**-**	1,637,500	-
Exercised	**(1,521,250)**	**-**	(6,139,670)	(10)
Expired	**(116,250)**	**-**	(6,290,555)	-
Balance, end of period	**-**	**$ -**	1,637,500	$ -

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.

10. Share capital (continued)

d) Warrants:

ii) In conjunction with a brokered 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 September 30, 2006, 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.

iii) In conjunction with a brokered 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 September 30, 2006, 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. At September 30, 2006 1,521,250 warrants have been exercised and the remaining 116,250 warrants expired on May 24, 2006.

e) Contributed surplus:	**September 30, 2006**	December 31, 2005
Balance, beginning of year	**$ 3,928,117**	$ 2,588,519
Value attributed to stock options granted	**647,909**	1,562,448
Value of stock options expired	**(223,370)**	-
Value of stock options exercised	**(183,375)**	(222,850)
Balance, end of year	**$ 4,169,281**	$ 3,928,117

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:

	September 30, 2006	December 31, 2005
Basic, beginning of period	**40,335,246**	35,141,388
Shares issued pursuant to options	**401,261**	611,216
Shares issued pursuant to conversion of debenture	**46,249**	56,081
Shares issued pursuant to warrants	**-**	-
Diluted, end of period	**40,782,756**	35,808,685

In calculating diluted common share amounts for the year ended September 30, 2006, the Company excluded 2,750,000 options and warrants (2005 – 3,987,500) because the exercise price was greater than the average market price of its common shares in those years.

12. Related party transactions

During the year, the Company paid consulting fees to certain officers and directors. Royalties incurred during the year ended December 31, 2005 pursuant to the Company's Royalty Incentive Plan were included in payables and accruals at December 31, 2005 and were paid to participants in the Royalty Incentive Plan in the period ended September 30, 2006 as set out below:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Consulting fees	**$ 157,500**	$ 186,000
Royalty expense	**-**	20,835
	$ 157,500	$ 206,835

13. Contingent liabilities

a) 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.

b) 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.

c) 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.

d) The Company has lodged a letter of credit in the amount of $196,875 for its share of a $10,500,000 refundable deposit on NWT Exploration License No. 441. The letter of credit is secured by an assignment of cash of $196,875. The Company is contingently liable under the letter of credit for its proportional share of any portion of a $787,500 gross work commitment not fulfilled. The deposit will be refunded by $1 for every $4 spent on qualified expenditures on EL-441.

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, 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.

15. Supplemental cash flow information

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

	September 30, 2006	December 31, 2005
Receivables	$ 1,136,559	$ 1,179,196
Prepaids	58,806	18,065
Payables and accruals	(70,770)	(120,938)
	$ 1,124,595	$ 1,318,199
Operating activities	$ 381,806	$ (162,580
Investing activities	742,789	(1,102,489)
Financing activities	-	(53,130)
.	$ 1,124,595	$ 1,318,199
Interest paid	$ 4,630	$ 4,473

16. Commitments

The Company is party to an agreement to lease its premises until December 31, 2011. 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	$ 20,340
2007	$ 81,360
2008	$ 81,360
2009	$ 81,360
2010	$ 81,360
2011	$ 81,360