International Frontier Resources Corporation

Consolidated Interim Financial Statements

March 31, 2006

Contents

International Frontier Resources Corporation
Consolidated Financial Statements
For the three month interim period ended
March 31, 2006

(unaudited – prepared by Management)

National Instrument 51-102 Notice

The consolidated financial statements of International Frontier Resources Corporation ("the Company") as at March 31, 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)

	March 31, 2006	December 31, 2005
Assets		
Current		
Cash and cash equivalents	**$ 10,923,354**	$ 12,905,913
Receivables	**1,560,657**	1,930,590
Inventory	**82,125**	82,125
Prepaids	**142,584**	132,412
	12,708,720	15,051,040
Refundable Deposits (Note 4)	**2,016,225**	1,441,325
Property and equipment (Note 5)	**8,671,793**	6,998,635
Intangibles (Note 6)	**43,750**	45,000
	$ 23,440,488	$ 23,536,000

Liabilities		
Current		
Payables and accruals	**$ 153,244**	$ 288,565
Asset retirement obligations (Note 7)	**205,905**	201,390
Future income taxes (Note 8)	**2,247,772**	393,368
Convertible debentures (Notes 9)	**62,648**	62,648
	2,669,569	945,971
Shareholders' Equity		
Share capital (Note 10)	**23,379,265**	25,111,254
Contributed surplus (Note 10)	**4,058,446**	3,928,117
Equity component of convertible debentures	**2,352**	2,352
Deficit	**(6,669,144)**	(6,451,694)
	20,770,919	22,590,029
	$ 23,440,488	$ 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 consolidated financial statements.

International Frontier Resources Corporation

Consolidated Interim Statements of Loss and Deficit

(unaudited – prepared by Management)

Three months ended March 31,	**2006**	2005
Revenue		
Oil sales	**$ 200,704**	$ 173,181
Less: gross overriding royalties	**(43,903)**	(44,438)
	156,801	128,743
Interest and other income	**83,504**	57,652
	240,305	186,395
Expenses		
Field operating costs	**99,285**	83,181
Depletion and depreciation	**36,023**	32,892
Accretion of asset retirement obligations (Note 7)	**5,554**	6,171
General and administration	**133,529**	104,872
Stock based compensation	**194,679**	1,423,260
Interest and bank charges	**4,962**	4,032
	474,032	1,654,408
Loss before income taxes	**(233,727)**	(1,468,013)
Future income tax recovery (Note 8)	**(16,277)**	(20,698)
Net loss	**$ (217,450)**	$ (1,447,315)
Net loss per share		
Basic (Note 11)	**$ (0.005)**	$ (0.04)
Diluted (Note 11)	**$ (0.005)**	$ (0.04)

Deficit, beginning of year	**$ (6,451,694)**	$ (4,614,460)
Net loss	**(217,450)**	(1,447,315)
Deficit, end of year	**$ (6,669,144)**	$ (6,061,775)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Interim Statements of Cash Flows

(unaudited – prepared by Management)

Three months ended March 31	2006	2005
Operating		
Net loss	$ (217,450)	$ (1,447,315)
Depletion and depreciation	36,023	32,892
Accretion of asset retirement obligations	5,554	6,171
Stock based compensation	194,679	1,423,260
Gain on sale of of investment	-	(4,746)
Future income tax recovery	(16,277)	(20,698)
	2,529	(10,436)
Change in non-cash operating working capital (Note 15)	545,730	(162,580)
	548,259	(173,016)
Investing		
Additions to petroleum and natural gas properties	(1,709,627)	(695,346)
Change in non-cash investing working capital (Note 15)	(321,291)	(1,102,489)
	(2,030,918)	(1,797,835)
Financing		
Shares issued for cash	75,000	2,917,025
Change in non-cash financing working capital (Note 15)	-	(53,130)
	75,000	2,863,895
Net increase in cash and cash equivalents	(1,407,659)	(893,044)
Cash and cash equivalents,		
Beginning of year	14,347,238	10,313,233
End of year	$ 12,939,579	$ 11,206,277
Cash and cash equivalents are represented by:		
Cash and temporary investments	$ 10,923,354	$ 10,854,777
Restricted cash	2,016,225	351,500
	$ 12,939,579	$ 11,206,277

See accompanying notes to the 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

Basis of presentation

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 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.

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.

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.

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.

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 March 31, 2006.

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

	Three months ended March 31, 2006	Year ended December 31, 2005
Assets		
Cash	$ 49,989	$ 49,985
Inventory	82,125	82,125
Intangibles	43,750	45,000
	175,864	177,110
Liabilities		
Payables	57,500	50,000
Net assets	$ 118,364	$ 127,110
Revenues	$ -	$ -
Expenditures	8,745	97,890
Net Loss	$ 8,745	$ 97,890
Cash used in operating activities	$ 6	$ (53,181)
Cash from investing activities	$ -	$ 101,793
Cash used in financing activities	$ -	$ -

4. Refundable Deposits

As at March 31, 2006, the Company has provided an assignment of cash totalling $58,575 (2005 - $58,575) as security on the irrevocable standby letter of credit against lease rentals on Northwest Territories Exploration License No. 391. As at March 31, 2006, EL-391 has expired.

As at March 31, 2006, the Company has provided an assignment of cash totalling $41,500 (2005 - $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 March 31, 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 (Colville Hills) - (see Note 13).

As at March 31, 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 (Colville Hills) - (see Note 13).

As at March 31, 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 March 31, 2006, the Company has provided an assignment of cash totalling $500,000 US (2005 - $nil) pursuant to the terms and conditions of a farm-in agreement covering the Company's share of the costs incurred on Quad 14 in the UK North Sea.

5. Property and equipment

March 31, 2006	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum and natural gas properties	**$ 10,454,017**	**$ 1,808,349**	**$ 8,645,668**
Office furniture and equipment	**78,209**	**52,084**	**26,125**
	$ 10,532,226	**$ 1,860,433**	**$ 8,671,793**

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

5. Property and equipment (continued)

The Company has financed a portion of its exploration and development activities from the proceeds of flow-through share issues. As a result, petroleum and natural gas properties with a cost of $6,231,264 (2005 - $4,901,394) have no cost basis for income tax purposes. During the period, $45,533 (2005 - $184,879) of overhead expenses directly related to exploration and development activities were capitalized and $1,544 (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 March 31, 2006, undeveloped properties with a cost of $7,935,810 (2005 - $6,222,050) included in petroleum and natural gas properties have not been subject to depletion.

As at March 31, 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. This amount is included in depletion and depreciation on the consolidated statements of loss and deficit.

6. Intangible Assets

March 31, 2006	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Sidox license	**$ 45,000**	**$ 1,250**	**$ 43,750**

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 $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:

	Three months ended March 31, 2006	Year ended December 31, 2005
Balance, beginning of year	**$ 201,390**	$ 232,752
Liabilities incurred	**-**	16,537
Liabilities settled	**-**	(69,610)
Accretion expense	**4,515**	21,711
Balance, end of year	**$ 205,905**	$ 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:

	Three months ended March 31, 2006	Year ended December 31, 2005
Loss before income taxes	**$ (233,727)**	$ (2,013,113)
Expected tax recovery at combined federal and provincial statutory rates	**$ (78,532)**	$ (676,406)
Increase (decrease) resulting from:		
Statutory rate change	**-**	(85,000)
Resource allowance	**5,082**	8,723
Stock-based compensation	**65,412**	524,983
Valuation allowance	**88,331**	88,331
Other	**(96,570)**	(36,510)
Future income tax recovery	**$ (16,277)**	$ (175,879)

8. Income taxes (continued)

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

	March 31, 2006	December 31, 2005
Excess of carry value of property and equipment over tax values	**$ 3,033,515**	$ 1,168,160
Asset retirement obligations	**(69,184)**	(67,667)
Share issue costs	**(247,766)**	(252,726)
Non-capital losses carry-forwards	**(439,407))**	(427,793)
Other	**(29,386)**	(26,606)
	$ 2,247,772	$ 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.

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.

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 March 31, 2006. At March 31, 2006, the fair value of the remaining $65,000 of convertible debentures is approximately $62,648.

10. Share capital

a) Authorized:
Unlimited common shares
Unlimited preferred shares

b) Issued:

	March 31, 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	**-**	**-**	4,183,070	3,543,848
Issued upon exercise of options	**50,000**	**139,350**	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 year	**40,297,468**	**$ 23,379,265**	40,247,468	$ 25,111,254

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 March 31, 2006, 3,420,000 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	**March 31, 2006**		December 31, 2005	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning of year	**3,320,000**	**$ 1.34**	2,810,000	$ 1.02
Granted	**150,000**	**$ 1.95**	1,000,000	$ 1.80
Exercised	**(50,000)**	**$ 1.50**	(490,000)	$ 0.41
Balance, end of year	**3,420,000**	**$ 1.43**	3,320,000	$ 1.34

10. Share capital (continued)

c) Stock options:

Expiry dates	March 31, 2006 Number of Options		March 31, 2006 Price	December 31, 2005 Number of Options		December 31, 2005 Price
December 23, 2008	**690,000**	**$**	**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	**600,000**	**$**	**1.50**	650,000	$	1.50
December 23, 2009	**800,000**	**$**	**1.60**	800,000	$	1.60
February 11, 2010	**900,000**	**$**	**1.85**	900,000	$	1.85
September 15, 2010	**100,000**	**$**	**1.35**	100,000	$	1.35
January 3, 2011	**150,000**	**$**	**1.95**	-	$	-
	3,420,000	**$**	**1.43**	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	870,000	3.02	$ 0.46	870,000	$ 0.46
$1.35 - $1.95	2,550,000	4.09	$ 1.68	2,550,000	$ 1.68
	3,420,000	3.82	$ 1.43	3,420,000	$ 1.43

The weighted average fair market value of options granted for the year ended March 31, 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:

	March 31, 2006	December 31, 2005
Risk-free interest rate	**3.90%**	3.55%
Expected life of options	**5**	5
Volatility in price of the Company's shares	**80.00%**	130.00%
Dividend yield rate	**0%**	0%

10. Share capital (continued)

d) Warrants:

Warrants outstanding are as follows:

	March 31, 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	**-**	**-**	(6,139,670)	(10)
Expired	**-**	**-**	(6,290,555)	-
Balance, end of year	**1,637,500**	**$ -**	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.

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 March 31, 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.

10. Share capital (continued)

d) Warrants:

ii) 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 March 31, 2006, 264,470 of the Series "C" warrants have been exercised and the remaining Series "C" warrants expired on October 1, 2005.

iii) 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.

iv) 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.

e) Contributed surplus:

	March 31, 2006	December 31, 2005
Balance, beginning of year	**$ 3,928,117**	$ 2,588,519
Value attributed to stock options granted	**194,679**	1,562,448
Value of stock options exercised	**(64,350)**	(222,850)
Balance, end of year	**$ 4,058,446**	$ 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:

	March 31, 2006	December 31, 2005
Basic, beginning of period	**40,335,246**	35,141,388
Shares issued pursuant to options	**1,151,765**	611,216
Shares issued pursuant to conversion of debenture	**61,764**	56,081
Shares issued pursuant to warrants	**-**	-
Diluted, end of year	**41,548,775**	35,808,685

In calculating diluted common share amounts for the year ended March 31, 2006, the Company excluded 2,687,500 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 in conjunction with the Company's Royalty Incentive Plan were included in payables and accruals at December 31, 2005 and were paid to certain officers of the Company in the period ended March 31, 2006. These transactions were measured at the exchange amount which approximated fair market value as set out below:

	Three months ended March 31, 2006	Year ended December 31, 2005
Consulting fees	**$ 48,500**	$ 186,000
Royalty expense	**-**	20,835
	$ 48,500	$ 206,835

13. Contingent liabilities

a) The Company has lodged a letter of credit in the amount of $41,500 for its share of a $381,608 refundable deposit on NWT Exploration License No. 416. The letter of credit is secured by an assignment of cash of $41,500. The Company is contingently liable under the letter of credit for 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 the Company's $41,500.

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.

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 (Colville Hills). 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.

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 (Colville Hills). 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.

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:

		March 31, 2006		December 31, 2005
Receivables	**$**	**369,934**	$	1,179,196
Prepaids		**(10,172)**		18,065
Payables and accruals		**(135,323)**		(120,938)
	$	**224,439**	$	1,318,199
Operating activities	**$**	**545,730**	$	(162,580
Investing activities		**(321,291)**		(1,102,489)
Financing activities		**-**		(53,130)
.	**$**	**224,439**	$	1,318,199
Interest paid	**$**	**1,544**	$	4,473

16. Commitments

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

2006	$	56,108

17. Subsequent event

Subsequent to March 31, 2006 a total of 1,521,250 warrants were exercised in relation to the Company's November 24, 2005 private placement (Note 10 d) iv)), for proceeds of $2,814,312.