



International Frontier Resources Corporation
Interim Consolidated Financial Statements

June 30, 2006

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International Frontier Resources Corporation
Consolidated Interim Financial Statements
For the six month interim period ended
June 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 June 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)

	June 30, 2006	December 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 13,368,101	\$ 12,905,913
Receivables	429,690	1,930,590
Inventory	82,125	82,125
Prepays	<u>119,063</u>	<u>132,412</u>
	13,998,979	15,051,040
Refundable deposits (Note 4)	1,596,700	1,441,325
Property and equipment (Note 5)	10,763,920	6,998,635
Intangibles (Note 6)	<u>42,500</u>	<u>45,000</u>
	<u>\$ 26,402,099</u>	<u>\$ 23,536,000</u>
Liabilities		
Current		
Payables and accruals	\$ 559,155	\$ 288,565
Asset retirement obligations (Note 7)	234,336	201,390
Future income taxes (Note 8)	2,096,019	393,368
Convertible debentures (Notes 9)	<u>62,648</u>	<u>62,648</u>
	<u>2,952,158</u>	<u>945,971</u>
Shareholders' Equity		
Share capital (Note 10)	26,193,578	25,111,254
Contributed surplus (Note 10)	4,058,446	3,928,117
Equity component of convertible debentures	2,352	2,352
Deficit	<u>(6,804,435)</u>	<u>(6,451,694)</u>
	<u>23,449,941</u>	<u>22,590,029</u>
	<u>\$ 26,402,099</u>	<u>\$ 23,536,000</u>

Contingent liabilities (Note 13)

Subsequent events (Note 17)

On behalf of the Board

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

See accompanying notes to the interim consolidated financial statements.

International Frontier Resources Corporation

Interim Statements of Loss and Deficit

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue				
Oil and Gas	\$ 305,255	\$ 221,918	\$ 505,959	\$ 395,098
Less: royalties	<u>(59,176)</u>	<u>(35,900)</u>	<u>(103,079)</u>	<u>(80,338)</u>
	246,079	186,018	402,880	314,760
Interest	<u>102,738</u>	<u>56,184</u>	<u>186,244</u>	<u>113,836</u>
	<u>348,817</u>	<u>242,202</u>	<u>589,124</u>	<u>428,596</u>
Expenses				
Operating Costs	85,495	109,230	184,781	193,110
Depletion and depreciation	379,362	68,780	415,385	101,673
Accretion of asset retirement Obligations	5,335	5,180	10,889	11,351
General and administration	163,386	104,932	296,915	209,805
Stock based compensation	-	-	194,680	1,423,260
Interest and bank charges	<u>2,285</u>	<u>48</u>	<u>7,246</u>	<u>4,080</u>
	<u>635,863</u>	<u>288,170</u>	<u>1,109,896</u>	<u>1,943,279</u>
Loss before income taxes	(287,046)	(45,968)	(520,772)	(1,514,683)
Income taxes (recovery)	<u>(151,755)</u>	<u>(43,654)</u>	<u>(168,031)</u>	<u>(64,352)</u>
Net loss	<u>\$ (135,291)</u>	<u>\$ (2,314)</u>	<u>\$ (352,741)</u>	<u>\$ (1,450,331)</u>
Loss per share				
Basic (Note 11)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Diluted (Note 11)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Deficit, beginning of period			\$ (6,451,694)	\$ (4,614,459)
Net loss			<u>(352,741)</u>	<u>(1,450,331)</u>
Deficit, end of period			<u>\$ (6,804,435)</u>	<u>\$ (6,064,790)</u>

See accompanying notes to the interim consolidated financial statements.

International Frontier Resources Corporation

Interim Statements of Cash Flows

(unaudited – prepared by Management)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Increase (decrease) in cash and cash equivalents				
Operating				
Net loss	\$ (135,291)	\$ (2,314)	\$ (352,741)	\$ (1,450,331)
Depletion and depreciation	379,362	68,780	415,385	101,673
Accretion of asset retirement Obligations	5,335	5,180	10,889	11,351
Stock based compensation	-	-	194,680	1,423,260
Gain on sale of investment	-	-	-	(4,746)
Income tax (recovery)	(151,755)	(43,654)	(168,031)	(64,352)
Cash flow from operating activities	97,651	27,992	100,182	16,855
Change in non-cash operating working capital (Note 15)	33,111	28,627	578,840	(133,253)
	<u>130,762</u>	<u>56,619</u>	<u>679,022</u>	<u>(116,398)</u>
Investing				
Additions to petroleum and natural gas properties	(2,447,142)	(1,076,445)	(4,156,769)	(1,771,789)
Investment in Sidox Chemicals Canada Inc.	-	(235,000)	-	(235,000)
Change in non-cash investing working capital (Note 15)	1,527,289	872,599	1,205,997	(229,890)
	<u>(919,853)</u>	<u>(438,846)</u>	<u>(2,950,772)</u>	<u>(2,236,679)</u>
Financing				
Private placements	2,814,313	127,823	2,889,313	3,044,847
Convertible debentures	-	-	-	-
Deferred financing charge	-	-	-	-
Change in non-cash financing working capital (Note 15)	-	-	-	(53,130)
	<u>2,814,313</u>	<u>127,823</u>	<u>2,889,313</u>	<u>2,991,717</u>
Net decrease in cash and cash equivalents	2,025,222	(254,404)	617,563	638,640
Cash and cash equivalents, Beginning of period	12,939,579	11,206,277	14,347,238	10,313,233
End of period	\$ <u>14,964,801</u>	\$ <u>10,951,873</u>	\$ <u>14,964,801</u>	\$ <u>10,951,873</u>
Cash and cash equivalents is represented by:				
Cash and temporary investments			\$ 13,368,101	\$ 9,569,122
Refundable deposits			<u>1,596,700</u>	<u>1,382,750</u>
			\$ <u>14,964,801</u>	\$ <u>10,951,872</u>

See accompanying notes to the interim consolidated financial statements.

International Frontier Resources Corporation

Notes to the Consolidated Interim Financial Statements

(unaudited – prepared by Management)

June 30, 2006

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, 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 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 June 30, 2006.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 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:

	<u>Six months ended</u> <u>June 30, 2006</u>	<u>Year ended</u> <u>December 31, 2005</u>
Assets		
Cash	\$ 49,990	\$ 49,985
Inventory	82,125	82,125
Intangibles	<u>42,500</u>	<u>45,000</u>
	174,615	177,110
Liabilities		
Payables	<u>65,000</u>	<u>50,000</u>
Net assets	\$ <u>109,615</u>	\$ <u>127,110</u>
Revenues	\$ -	\$ -
Expenditures	<u>17,492</u>	<u>97,890</u>
Net Loss	\$ <u>17,492</u>	\$ <u>97,890</u>
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 June 30, 2006, the Company has provided an assignment of cash totalling \$58,575 (2005 - \$58,575) as security on an irrevocable standby letter of credit against lease rentals on Northwest Territories Exploration License No. 391. As at June 30, 2006, EL-391 has expired and the Company has applied for a return of its letter of credit in the amount of \$58,575.

As at June 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 June 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 June 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 June 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).

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

5. Property and equipment

<u>June 30, 2006</u>	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 12,924,258	\$ 2,184,910	\$ 10,739,348
Office furniture and equipment	<u>78,209</u>	<u>53,637</u>	<u>24,572</u>
	<u>\$ 13,002,467</u>	<u>\$ 2,238,547</u>	<u>\$ 10,763,920</u>
<u>December 31, 2005</u>	<u>Cost</u>	<u>Depletion and Depreciation</u>	<u>Accumulated 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>

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 \$8,845,385 (2005 - \$4,901,394) have no cost basis for income tax purposes. During the period, \$61,630 (2005 - \$184,879) of overhead expenses directly related to exploration and development activities were capitalized and \$3,088 (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 June 30, 2006, undeveloped properties, mainly in the Northwest Territories, with a cost of \$10,124,680 (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 June 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 June 30, 2006 \$345,415 (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.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

6. Intangible Assets

<u>June 30, 2006</u>	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Sidox license	\$ <u>45,000</u>	\$ <u>2,500</u>	\$ <u>42,500</u>
<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Sidox license	\$ <u>50,000</u>	\$ <u>5,000</u>	\$ <u>45,000</u>

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:

	<u>Six months ended June 30, 2006</u>	<u>Year ended December 31, 2005</u>
Balance, beginning of year	\$ 201,390	\$ 232,752
Liabilities incurred	22,057	16,537
Liabilities settled	-	(69,610)
Accretion expense	<u>10,889</u>	<u>21,711</u>
Balance, end of period	\$ <u>234,336</u>	\$ <u>201,390</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

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:

	Six months ended	Year ended
	June 30, 2006	December 31, 2005
Loss before income taxes	\$ <u>(352,741)</u>	\$ <u>(2,013,113)</u>
Expected tax recovery at combined federal and provincial statutory rates	\$ (174,979)	\$ (676,406)
Increase (decrease) resulting from:		
Statutory rate change	-	(85,000)
Resource allowance	4,526	8,723
Stock-based compensation	65,412	524,983
Valuation allowance	91,706	88,331
Other	<u>(154,696)</u>	<u>(36,510)</u>
Future income tax recovery	\$ <u>(168,031)</u>	\$ <u>(175,879)</u>

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

	June 30,	December 31,
	<u>2006</u>	<u>2005</u>
Excess of carry value of property and equipment over tax values	\$ 2,929,998	\$ 1,168,160
Asset retirement obligations	(78,737)	(67,667)
Share issue costs	(252,726)	(252,726)
Non-capital losses carry-forwards	(473,130)	(427,793)
Other	<u>(29,386)</u>	<u>(26,606)</u>
	\$ <u>2,096,019</u>	\$ <u>393,368</u>

9. Convertible debentures

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

9. Convertible debentures (continued)

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 June 30, 2006. At June 30, 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:

	June 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	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 period	41,818,718	\$ 26,193,578	40,247,468	\$ 25,111,254

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

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 June 30, 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.

<u>Outstanding and exercisable</u>	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Beginning of year	3,320,000	\$ 1.34	2,810,000	\$ 1.02
Granted	150,000	\$ 1.95	1,000,000	\$ 1.80
Exercised	<u>(50,000)</u>	<u>\$ 1.50</u>	<u>(490,000)</u>	<u>\$ 0.41</u>
Balance, end of period	<u>3,420,000</u>	<u>\$ 1.37</u>	<u>3,320,000</u>	<u>\$ 1.34</u>

<u>Expiry dates</u>	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Number of Options</u>	<u>Price</u>	<u>Number of Options</u>	<u>Price</u>
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	<u>150,000</u>	<u>\$ 1.95</u>	-	\$ -
	<u>3,420,000</u>	<u>\$ 1.37</u>	<u>3,320,000</u>	<u>\$ 1.34</u>

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$0.45 - \$0.50	870,000	3.02	\$ 0.46	870,000	\$ 0.46
\$1.35 - \$1.95	<u>2,550,000</u>	<u>4.09</u>	<u>\$ 1.68</u>	<u>2,550,000</u>	<u>\$ 1.68</u>
	<u>3,420,000</u>	<u>3.82</u>	<u>\$ 1.43</u>	<u>3,420,000</u>	<u>\$ 1.43</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

10. Share capital (continued)

c) Stock options:

The weighted average fair market value of options granted in the period ended June 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:

	June 30, 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%

d) Warrants:

Warrants outstanding are as follows:

	June 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.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

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 June 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 June 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 June 30, 2006 1,521,250 warrants have been exercised and the remaining 116,250 warrants expired on May 24, 2006.

e) Contributed surplus:

	June 30, 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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

June 30, 2006

11. Per share amounts

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

Weighted average shares outstanding:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
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	<u>-</u>	<u>-</u>
Diluted, end of period	<u>41,548,775</u>	<u>35,808,685</u>

In calculating diluted common share amounts for the year ended June 30, 2006, the Company excluded 1,050,000 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 June 30, 2006 as set out below:

	<u>Six months ended June 30, 2006</u>	<u>Year ended December 31, 2005</u>
Consulting fees	\$ 105,000	\$ 186,000
Royalty expense	<u>-</u>	<u>20,835</u>
	<u>\$ 105,000</u>	<u>\$ 206,835</u>

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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 has been returned and the license has expired at June 30, 2006.
- 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. 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. 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.
- e) 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.

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15. Supplemental cash flow information

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

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Receivables	\$ 1,500,900	\$ 1,179,196
Prepays	13,349	18,065
Payables and accruals	<u>270,588</u>	<u>(120,938)</u>
	<u>\$ 1,784,837</u>	<u>\$ 1,318,199</u>
Operating activities	\$ 578,840	\$ (162,580)
Investing activities	1,205,997	(1,102,489)
Financing activities	<u>-</u>	<u>(53,130)</u>
	<u>\$ 1,784,837</u>	<u>\$ 1,318,199</u>
Interest paid	<u>\$ 3,088</u>	<u>\$ 4,473</u>

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	\$ 27,790
2007	\$ 81,360
2008	\$ 81,360
2009	\$ 81,360
2010	\$ 81,360
2011	\$ 81,360

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17. Subsequent events

- a) On July 11, 2006 the Company announced the issuance of 350,000 stock options to Directors under the Company's stock option plan. The options have an exercise price of \$1.40 per share and are subject to TSX Venture approval.
- b) On August 1, 2006 Exploration Licence 401 in the Central Mackenzie Valley expired. All costs associated with the license have been written off subsequent to June 30, 2006.