



International Frontier Resources Corporation  
Interim Consolidated Financial Statements  
For The Three and Six Month Periods Ended  
June 30, 2008 and 2007

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# **International Frontier Resources Corporation**

## **Consolidated Financial Statements**

**For the three and six month periods ended June 30, 2008 and 2007**

(Unaudited)

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National Instrument 51-102 Notice

The consolidated financial statements of International Frontier Resources Corporation (“the Company”) for the three and six month periods ended June 30, 2008 and 2007 have been compiled by management.

These consolidated financial statements have not been reviewed or audited on behalf of the shareholders by the Company’s independent external auditors.

## International Frontier Resources Corporation

### Consolidated Balance Sheets

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 7)	\$ 10,094,755	\$ 25,316,940
Receivables	687,765	1,227,990
Prepays	<u>273,360</u>	<u>162,690</u>
	<b>11,055,880</b>	<b>26,707,620</b>
Restricted cash on deposit (Note 8a)	2,267,175	2,267,175
Property and equipment	28,423,810	17,504,875
Inventory	78,075	82,125
Intangibles	<u>32,500</u>	<u>35,000</u>
	<b>\$ 41,857,440</b>	<b>\$ 46,596,795</b>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 782,860	\$ 4,207,115
Convertible debentures	-	62,650
Current portion of asset retirement obligations	<u>-</u>	<u>30,000</u>
	<b>782,860</b>	<b>4,299,765</b>
Asset retirement obligations	333,085	306,020
Future income taxes	<u>3,229,630</u>	<u>1,141,630</u>
	<b>4,345,575</b>	<b>5,747,415</b>
<b>Shareholders' Equity</b>		
Share capital (Note 4)	42,064,435	44,121,725
Warrants (Note 4)	-	3,757,090
Contributed surplus (Note 4)	10,540,030	6,732,940
Equity component of convertible debentures	-	2,350
Deficit	<u>(15,092,600)</u>	<u>(13,764,725)</u>
	<b>37,511,865</b>	<b>40,849,380</b>
	<b>\$ 41,857,440</b>	<b>\$ 46,596,795</b>

Nature of operations (Note 1)  
 Commitments and contingencies (Note 8)  
 Subsequent events (Note 11)

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

### Consolidated Statements of Operations, Comprehensive Earnings (Loss) and Deficit

(unaudited – prepared by Management)

	<b>Three Months ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Revenue				
Oil	\$ 375,690	\$ 167,965	\$ 695,520	\$ 328,490
Less: royalties	<u>(73,180)</u>	<u>(33,360)</u>	<u>(124,945)</u>	<u>(63,850)</u>
	<b>302,510</b>	134,605	<b>570,575</b>	264,640
Interest income	<b>138,420</b>	269,295	<b>362,470</b>	490,175
Foreign exchange gain	<u>-</u>	<u>-</u>	<u>31,120</u>	<u>-</u>
	<b>440,930</b>	<u>403,900</u>	<b>964,165</b>	<u>754,815</u>
Expenses				
Field operating costs	<b>80,980</b>	183,740	<b>210,685</b>	272,340
Depletion and depreciation and impairments	<b>1,555,235</b>	32,805	<b>1,631,540</b>	69,485
Accretion (Note 6)	<b>3,875</b>	5,380	<b>9,080</b>	10,755
Foreign exchange loss	<b>67,685</b>	-	-	-
General and administration	<b>158,490</b>	195,235	<b>335,575</b>	435,660
Non - recoverable Sidox costs	<b>105,160</b>	-	<b>105,160</b>	-
Stock based compensation	<u>-</u>	<u>1,058,875</u>	<u>-</u>	<u>1,851,725</u>
	<b>1,971,425</b>	<u>1,476,035</u>	<b>2,292,040</b>	<u>2,639,965</u>
Loss before income taxes	<b>(1,530,495)</b>	(1,072,135)	<b>(1,327,875)</b>	(1,885,150)
Future income tax recovery	<u>-</u>	<u>(11,840)</u>	<u>-</u>	<u>(114,990)</u>
Net loss and comprehensive loss	<b>\$ (1,530,495)</b>	\$ (1,060,295)	<b>\$ (1,327,875)</b>	\$ (1,770,160)
Deficit, beginning of period			<b><u>(13,764,725)</u></b>	<u>(7,681,340)</u>
Deficit, end of period			<b>\$ <u>(15,092,600)</u></b>	\$ <u>(9,451,500)</u>
<b>Net loss per share</b>				
Basic and diluted (Note 6)	<b>\$ <u>(0.03)</u></b>	\$ <u>(0.02)</u>	<b>\$ <u>(0.02)</u></b>	\$ <u>(0.04)</u>

See accompanying notes to the interim consolidated financial statements.

# International Frontier Resources Corporation

## Consolidated Statements of Cash Flows

(unaudited)

	<u>Three Months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2008	2007	2008	2007
<b>Operating</b>				
Net loss	\$ (1,530,495)	\$(1,060,295)	\$ (1,327,875)	\$ (1,770,160)
Non cash items				
Depletion and depreciation and impairments	1,555,235	32,805	1,631,540	69,485
Accretion	3,875	5,380	9,080	10,755
Non - recoverable Sidox costs	105,165	-	105,165	-
Stock based compensation	-	1,058,875	-	1,851,725
Future income tax recovery	-	(11,840)	-	(114,990)
Asset retirement liabilities settled	(460)	(85,575)	(12,015)	(85,575)
	<b>133,320</b>	(60,650)	<b>405,895</b>	(38,760)
Change in non-cash operating working capital (Note 7)	<u>(130,840)</u>	<u>(529,260)</u>	<u>(711,945)</u>	<u>(262,195)</u>
	<b>2,480</b>	<u>(589,910)</u>	<b>(306,050)</b>	<u>(300,955)</u>
<b>Investing</b>				
Additions to property and equipment	(4,260,060)	(371,150)	(12,549,095)	(427,640)
Restricted cash on deposit - (Note 7)	-	(374,305)	-	(374,305)
Change in non-cash investing working capital (Note 7)	<u>(6,109,105)</u>	<u>(101,915)</u>	<u>(2,282,750)</u>	<u>(208,190)</u>
	<b>(10,369,165)</b>	<u>(847,370)</u>	<b>(14,831,845)</b>	<u>(1,010,135)</u>
<b>Financing</b>				
Private placements	-	-	-	22,700,000
Share issue costs	-	-	30,710	(2,002,515)
Contributed surplus - Sidox license	(50,000)	-	(50,000)	-
Convertible debenture	(65,000)	-	(65,000)	-
	<b>(115,000)</b>	-	<b>(84,290)</b>	<u>20,697,485</u>
Net increase (decrease) in cash and cash equivalents	<b>(10,481,685)</b>	(1,437,280)	<b>(15,222,185)</b>	19,386,395
Cash and cash equivalents, Beginning of period	<u>20,576,440</u>	<u>32,677,220</u>	<u>25,316,940</u>	<u>11,853,545</u>
End of period	<b>\$ 10,094,755</b>	<b>\$ 31,239,940</b>	<b>\$ 10,094,755</b>	<b>\$ 31,239,940</b>
Cash and cash equivalents are comprised of:				
Cash on hand	\$ 1,145,870	\$ 126,570	\$ 1,145,870	\$ 126,570
Short-term Banker's Acceptances	<u>8,948,885</u>	<u>31,113,370</u>	<u>8,948,885</u>	<u>31,113,370</u>
Total	<b>\$ 10,094,755</b>	<b>\$ 31,239,940</b>	<b>\$ 10,094,755</b>	<b>\$ 31,239,940</b>

See accompanying notes to the interim consolidated financial statements.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

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### 1. Nature of operations

The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves. These activities are conducted in two geographical areas, being Canada and the United Kingdom.

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### 2. Principles of presentation

These unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada following the same accounting policies and methods of application as the consolidated financial statements of the Company for the year ended December 31, 2007, except as disclosed in Note 3 below. The disclosures provided below are incremental to those included in the Company's annual consolidated financial statements. The unaudited interim consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2007.

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries and are presented in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2007 as filed on SEDAR at [www.sedar.com](http://www.sedar.com). Except as noted below, these financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2007. The disclosures provided below are incremental to those included with the year end financial statements.

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### 3. Changes in accounting policies

- (a) On January 1, 2008, the Company adopted Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

#### Capital Disclosures

CICA Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

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### 3. Changes in accounting policies (Continued)

#### Financial Instruments

CICA Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. These Sections will require the Company to increase disclosure on the nature and extent of risks arising from financial instruments and how the entity manages those risks. (Note 10)

#### General Standards for Financial Statements Presentation

The CICA has amended Section 1400, "General Standards of Financial Statement Presentation", which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern.

- (b) Effective January 1, 2008, the CICA has issued accounting standard Section 3031 "Inventories". Section 3031 "Inventories" provides guidance on the method of determining the cost of the Company's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The Company currently reflects materials and supplies at the lower of cost and replacement value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 "Inventories" did not impact the Company's financial statements.

The adoption of these new accounting standards did not impact the amounts reported in the Company's financial statements; however, it did result in expanded not disclosure (see Note 10).

- (c) The Company is assessing the new and revised accounting pronouncements that have been issued that are not yet effective:
- The CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.
  - In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

### 4. Share capital

#### a) Authorized:

Unlimited common shares  
Unlimited preferred shares

#### b) Issued:

	June 30, 2008		December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
<b>Common shares</b>				
Beginning of period	59,578,965	\$ 44,121,725	42,041,465	\$ 26,410,600
Issued for cash (i)	-	-	12,400,000	15,500,000
Issued for services (ii)	-	-	100,000	125,000
Value attributed to warrants	-	-	-	(3,757,090)
Flow-through shares (iii, iv)	-	-	5,037,500	7,390,000
Tax effect of flow shares	-	(2,088,000)	-	-
Share issue costs	-	30,710	-	(1,546,785)
Balance, end of period	59,578,965	\$ 42,064,435	59,578,965	\$ 44,121,725

(i) In conjunction with a bought deal financing on February 22, 2007 the Company issued 12,400,000 units at a price of \$1.25 per unit, for gross proceeds of \$15,500,000. Each unit is comprised of one common share and one-half warrant. One full warrant entitles the holder thereof with the right to purchase one common share at \$1.60.

(ii) In conjunction with the above financing, the Company issued 100,000 Corporate Finance Units to the underwriter. Each unit consists of one common share and one warrant. At December 31, 2007, \$125,000 has been included in share capital to reflect the value of these shares at the date of issue.

(iii) On February 22, 2007, the Company also issued 4,800,000 flow-through shares at a price of \$1.50 per share, for gross proceeds of \$7,200,000.

(iv) On December 13, 2007 in conjunction with a non-brokered private placement, the Company issued 237,500 flow-through shares at a price of \$0.80 per share, for gross proceeds of \$190,000. The shares issued are subject to a hold period which expires on April 20, 2008.

#### c) Flow-through share obligation information:

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 3,498,025	\$ -
Flow-through share proceeds	-	7,390,000
Expenditures incurred	(3,498,025)	(3,891,975)
Balance, end of period	\$ -	\$ 3,498,025

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007  
(Unaudited)

### 4. Share capital (continued)

#### d) Stock options:

The Company has a stock option plan available to 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, 2008, 2,830,000 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, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of period	5,855,000	\$ 1.23	3,355,000	\$ 1.42
Granted	-	\$ -	2,500,000	\$ 0.97
Expired	(3,025,000)	\$ 1.57	-	\$ -
Exercised	-	\$ -	-	\$ -
Balance, end of period	<u>2,830,000</u>	<u>\$ 0.88</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

<u>Expiry dates</u>	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Options</u>	<u>Price</u>	<u>Number of Options</u>	<u>Price</u>
December 23, 2008	465,000	0.45	465,000	\$ 0.45
January 26, 2009	90,000	0.50	90,000	\$ 0.50
April 1, 2009	75,000	0.45	75,000	\$ 0.45
November 16, 2009	100,000	1.50	525,000	\$ 1.50
December 23, 2009	175,000	1.60	800,000	\$ 1.60
February 11, 2010	-	-	800,000	\$ 1.85
September 15, 2010	100,000	1.35	100,000	\$ 1.35
January 5, 2011	125,000	1.95	150,000	\$ 1.95
June 30, 2011	-	-	350,000	\$ 1.40
January 9, 2012	-	-	800,000	\$ 1.30
June 26, 2012	<u>1,700,000</u>	<u>\$ 0.82</u>	<u>1,700,000</u>	<u>\$ 0.82</u>
	<u>2,830,000</u>	<u>\$ 0.88</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

On April 8, 2008 certain optionees surrendered for cancellation 2,987,500 stock options with an average exercise price of \$1.57 per share.

#### June 30, 2008

	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Price</u>
Exercise Price					
\$0.25 - \$0.82	2,330,000	3.06	\$ 0.72	2,330,000	\$ 0.72
\$1.35 - \$1.95	<u>500,000</u>	<u>1.87</u>	<u>\$ 1.62</u>	<u>500,000</u>	<u>\$ 1.62</u>
	<u>2,830,000</u>	<u>2.85</u>	<u>\$ 0.88</u>	<u>2,830,000</u>	<u>\$ 0.88</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007  
(Unaudited)

### 4. Share capital (continued)

#### d) Stock options (continued)

#### December 31, 2007

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercisable Price</u>
\$0.45 - \$0.50	630,000	1.03	\$ 0.46	630,000	\$ 0.46
\$0.82 - \$1.30	2,500,000	4.34	\$ 0.97	2,500,000	\$ 0.97
\$1.35 - \$1.95	<u>2,725,000</u>	<u>2.28</u>	<u>\$ 1.64</u>	<u>2,725,000</u>	<u>\$ 1.64</u>
	<u>5,855,000</u>	<u>3.03</u>	<u>\$ 1.23</u>	<u>5,855,000</u>	<u>\$ 1.23</u>

There were no options granted for the period ended June 30, 2008. The weighted average fair market value of options granted in the period ended December 31, 2007 was \$0.92 per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Risk-free interest rate	-	4.37%
Expected life of options	-	5 years
Volatility	-	163%-170.00%
Dividend yield rate	-	0%

#### e) Warrants:

Warrants outstanding are as follows:

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning of period	<u>7,504,000</u>	<u>\$ 3,757,090</u>	-	\$ -
Issued (i), (ii)	-	-	7,504,000	3,757,090
Exercised	-	-	-	-
Expired	<u>(7,504,000)</u>	<u>(3,757,090)</u>	-	-
Balance, end of period	<u>-</u>	<u>\$ -</u>	<u>7,504,000</u>	<u>\$ 3,757,090</u>

(i) In conjunction with a bought deal unit financing on February 22, 2007 the Company raised proceeds of \$15,500,000. Each unit is comprised of one common share and one-half warrant. One full warrant entitles the holder, on exercise to purchase one additional non-flow through share at a price of \$1.60 per share. The Company received approval from the TSX-V to extend the expiry date of the warrants from February 22, 2008 to May 22, 2008. The warrants expired unexercised on May 22, 2008.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007  
(Unaudited)

#### 4. Share capital (continued)

##### e) Warrants (continued)

(ii) Concurrently with the issuance of the units, the Company issued 1,204,000 underwriter warrants which entitle the holder, on exercise, to purchase one common share at a price of \$1.60 on or before February 22, 2008. In addition, the Company issued 100,000 Corporate Finance Units to the underwriter. Each unit consists of one common share and one warrant. One warrant entitles the holder the right to acquire one common share at a price of \$1.60 on or before February 22, 2008. The underwriter warrants and corporate finance warrants expired unexercised on February 22, 2008

The weighted average fair market value of warrants granted in the period ended June 30, 2008 is Nil per warrant (2007 – \$0.50). The fair value of each warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<b>June 30, 2008</b>	December 31, 2007
Risk-free interest rate	-	4.11%
Expected life of options	-	1 year
Volatility	-	82%
Dividend yield rate	-	0%

##### f) Contributed surplus:

	<b>June 30, 2008</b>	December 31, 2007
Balance, beginning of year	<b>\$ 6,732,940</b>	\$ 4,474,570
Value attributed to stock options granted	-	2,258,370
Value of stock options exercised	-	-
Sidox license	<b>50,000</b>	-
Fair value of expired warrants	<b>3,757,090</b>	-
Balance, end of period	<b>\$ 10,540,030</b>	\$ 6,732,940

At June 30, 2008, Nil (2007 – \$406,640) of the value attributed to stock options granted in the year were capitalized to petroleum and natural gas properties.

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

### 5. Related party transactions

During the period, the Company paid consulting fees to certain officers and directors as follows:

	<b>Six months ended</b>	Year ended
	<b>June 30, 2008</b>	December 31, 2007
Consulting fees	\$ 37,825	\$ 282,500
Royalty incentive program	-	12,690
	<u>\$ 37,825</u>	<u>\$ 295,190</u>

At June 30, 2008, Nil (2007 – \$10,510) of the above amounts were included in payables and accruals.

During the period, \$3,430 (2007 - \$30,725) was paid to a law firm in which a Director of the Company is a partner. Of this amount, \$2,610 is included in payables and accruals at June 30, 2008. These costs are included in general and administrative expenses on the consolidated statements of operations and deficit.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

### 6. Earnings (loss) per share

	<b>Three Months ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Net earnings (loss)	\$ (1,530,495)	\$ (1,060,295)	\$ (1,327,875)	\$ (1,770,160)
Weighted average number of shares	<u>59,578,965</u>	<u>46,459,475</u>	<u>59,578,965</u>	<u>46,459,475</u>
Basic earnings (loss) per share	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Net earnings (loss)	\$ (1,530,495)	\$ (1,060,295)	\$ (1,327,875)	\$ (1,770,160)
Weighted average number of shares	59,578,965	46,613,545	59,578,965	46,613,545
Dilutive effect of stock options	-	154,270	-	154,270
Dilutive weighted average number of shares	<u>59,578,965</u>	<u>46,613,545</u>	<u>59,578,965</u>	<u>46,613,545</u>
Diluted earnings (loss) per share	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>

## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

#### 6. Earnings (loss) per share (continued)

In calculating diluted common share amounts for the period ended June 30, 2008, the Company excluded 2,830,000 (2007 – 5,317,860) options and Nil (2007 – 7,504,000) warrants because the exercise price was greater than the average market price of its common shares during the year. In addition, at June 30, 2008, Nil (2007 – Nil) convertible debentures were included in the amount used in calculating diluted common share amounts.

#### 7. Supplemental cash flow information

The components of the change in non-cash working capital is as follows:

	Three Months ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Receivables	\$ (23,900)	\$ (205,345)	\$ 540,230	\$ (462,090)
Prepays	(83,130)	(116,610)	(110,675)	(165,190)
Payables and accruals	<u>(6,132,915)</u>	<u>(309,220)</u>	<u>(3,424,250)</u>	<u>156,895</u>
	<u>\$ (6,239,945)</u>	<u>\$ (631,175)</u>	<u>\$ (2,994,750)</u>	<u>\$ (470,385)</u>
Operating activities	\$ (130,840)	\$ (529,260)	\$ (711,945)	\$ (262,195)
Investing activities	(6,109,105)	(101,915)	(2,282,750)	(208,190)
Financing activities	-	-	-	-
	<u>\$ (6,239,945)</u>	<u>\$ (631,175)</u>	<u>\$ (2,994,695)</u>	<u>\$ (470,385)</u>
Interest paid	<u>\$ 515</u>	<u>\$ 1,545</u>	<u>\$ 2,060</u>	<u>\$ 3,080</u>

#### 8. Commitments and contingencies

a) The Company has letters of credit for its share of refundable deposits on Northwest Territories Exploration Licenses. The letters of credit are secured by a total assignment of cash of \$2,267,175 (2007 – \$2,267,175). The Company is contingently liable under the letters of credit for its proportionate share of the refundable deposit of \$2,267,175 (2006 - \$2,267,175). The deposits are refundable to the Company upon the Company meeting its work commitments, in whole or in part in the amount of \$9,068,700. The deposits will be refunded by \$1 for every \$4 spent on qualified expenditures on each Exploration License. The Company has applied for a reduction in letter's of credit for qualified expenditures incurred in 2007 and 2008.

b) 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:

2008	\$ 25,500
2009	\$ 51,000
2010	\$ 51,000
2011	\$ 51,000

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

### 9. Segmented information

The Company's activities are conducted in two geographic segments: Canada and the United Kingdom. All activities relate to exploration for and development of petroleum and natural gas.

#### a) Earnings (Loss)

##### Canada

	Three Months ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Oil	\$ 375,690	\$ 167,965	\$ 695,520	\$ 328,490
Less: royalties	<u>(73,180)</u>	<u>(33,360)</u>	<u>(124,945)</u>	<u>(63,850)</u>
	302,510	134,605	570,575	264,640
Interest	120,540	269,295	304,140	490,175
Foreign exchange gain	<u>-</u>	<u>-</u>	<u>8,975</u>	<u>-</u>
	<u>423,050</u>	<u>403,900</u>	<u>883,690</u>	<u>754,815</u>
Expenses				
Field operating costs	80,980	183,740	210,685	272,340
Depletion, depreciation, and impairments	1,555,235	32,805	1,631,540	69,485
Accretion	3,875	5,380	9,080	10,755
Foreign exchange loss	3,255	-	-	-
General and administration	158,035	195,235	333,835	435,660
Non - recoverable Sidox costs	105,160	-	105,160	-
Stock based compensation	<u>-</u>	<u>1,058,875</u>	<u>-</u>	<u>1,851,725</u>
	<u>1,906,540</u>	<u>1,476,035</u>	<u>2,290,300</u>	<u>2,639,965</u>
Earnings (loss) before Income taxes	\$ (1,483,490)	\$ (1,072,135)	\$ (1,406,610)	\$ (1,885,150)
Future income tax recovery (Note 7)	<u>-</u>	<u>(11,840)</u>	<u>-</u>	<u>(114,990)</u>
Net loss	<u>\$ (1,483,490)</u>	<u>\$ (1,060,295)</u>	<u>\$ (1,406,410)</u>	<u>\$ (1,770,160)</u>

## International Frontier Resources Corporation

### Notes to the Consolidated Interim Financial Statements

(unaudited) – September 30, 2007

#### 9. Segmented information (continued)

##### United Kingdom

	Three Months ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Oil	\$ -	\$ -	\$ -	\$ -
Less: royalties	-	-	-	-
	-	-	-	-
Interest	17,880	-	58,830	-
Foreign exchange gain	-	-	22,145	-
	17,880	-	80,475	-
Expenses				
Field operating costs	-	-	-	-
Depletion, depreciation, and impairments	-	-	-	-
Accretion	-	-	-	-
Foreign exchange loss	64,430	-	-	-
General and administration	455	-	1,740	-
Stock based compensation	-	-	-	-
	64,885	-	1,740	-
Earnings (loss) before Income taxes	\$ (47,005)	\$ -	\$ 78,735	\$ -
Future income tax recovery (Note 7)	-	-	-	-
Net loss	\$ (47,005)	\$ -	\$ 78,735	\$ -

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

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#### 9. Segmented information (continued)

##### b) Property and equipment

###### June 30, 2008

	<u>Canada</u>	<u>U.K.</u>	<u>Total</u>
Capital expenditures	\$ <u>8,404,010</u>	\$ <u>4,145,085</u>	\$ <u>12,549,095</u>
Property and equipment	\$ <u>22,164,910</u>	\$ <u>6,258,900</u>	\$ <u>28,423,810</u>

###### June 30, 2007

	<u>Canada</u>	<u>U.K.</u>	<u>Total</u>
Capital expenditures			
Cash expenditures	\$ 134,830	\$ 292,810	\$ 427,640
Stock options costs	<u>294,800</u>	<u>111,835</u>	<u>406,635</u>
	\$ <u>429,630</u>	\$ <u>404,645</u>	\$ <u>834,275</u>
Property and equipment	\$ <u>11,494,470</u>	\$ <u>1,509,910</u>	\$ <u>13,004,380</u>

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#### 10. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash assets, trade accounts receivable, deposits and trade accounts payable. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

##### a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the Company's financial assets at the balance sheet date arise from crude oil, natural gas liquids and natural gas sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company markets its oil and natural gas to several marketers so that the exposure to any one entity is minimized.

The Company assesses quarterly if there should be any impairment of the financial assets of the Corporation. During the three month period ended June 30, 2008, an impairment of \$1,429,670 was booked as an impairment of oil and gas properties.

The carrying value of accounts receivable and deposits approximates their fair value due to the relatively short periods to maturity on these instruments. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(Unaudited)

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### 10. Financial Instruments (continued)

#### b) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company holds cash and cash equivalents on hand that are denominated in United States currency and is exposed to foreign currency fluctuations on its operations in the United Kingdom as these are denominated in British pounds. At June 30, 2008, there were no contracts in place to fix the exchange rates on these transactions

#### c) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk to the extent that the convertible debentures have a fixed interest rate. In addition, the Company is also exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow through share obligations from February 1 to December 31 of the each year. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

A 1% increase or decrease in interest rates would have no material impact on the cash flow of the Company during the quarter ended June 30, 2008.

#### d) Liquidity Risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete our existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

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# **International Frontier Resources Corporation**

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

For the three and six month periods ended June 30, 2008 and 2007  
(Unaudited)

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### **10. Financial Instruments (continued)**

#### **e) Capital Risk**

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.