



International Frontier Resources Corporation  
Consolidated Financial Statements  
December 31, 2010

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of International Frontier Resources Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of International Frontier Resources Corporation as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Calgary, Alberta  
April 13, 2011

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## International Frontier Resources Corporation

### Consolidated Balance Sheets

December 31	2010	2009
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 14)	\$ 6,820,380	\$ 4,099,740
Receivables	119,570	144,295
Prepays and deposits	13,980	115,555
Current portion of restricted cash on deposit (Note 5)	335,115	-
Discontinued operations (Note 15)	-	<u>3,978,035</u>
	<u>7,289,045</u>	8,337,625
Restricted cash on deposit (Note 5)	305,555	640,670
Property and equipment (Note 6)	7,511,710	11,969,305
Deposits	177,670	-
Intangibles (Note 7)	-	<u>25,000</u>
	<u>\$ 15,283,980</u>	<u>\$ 20,972,600</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 607,600	\$ 212,575
Asset retirement obligations (Note 8)	224,260	-
Discontinued operations (Note 15)	-	<u>259,415</u>
	<u>831,860</u>	471,990
Asset retirement obligations (Note 8)	<u>389,930</u>	<u>327,720</u>
	<u>1,221,790</u>	<u>799,710</u>
<b>Shareholders' Equity</b>		
Share capital (Note 10)	42,064,435	42,064,435
Contributed surplus (Note 10)	10,859,525	10,746,850
Deficit	<u>(38,861,770)</u>	<u>(32,638,395)</u>
	<u>14,062,190</u>	<u>20,172,890</u>
	<u>\$ 15,283,980</u>	<u>\$ 20,972,600</u>

Commitments and contingencies (Note 13)

On behalf of the Board

**(Signed) "Wm. Patrick Boswell"** Director      **(Signed) "Margaret Souleles"** Director

See accompanying notes to the interim consolidated financial statements.

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**International Frontier Resources Corporation**  
**Consolidated Statements of Operations, Comprehensive Loss and Deficit**

Years ended December 31,	2010	2009
Revenue		
Oil	\$ 712,525	\$ 770,810
Less: Royalties	<u>(238,010)</u>	<u>(167,575)</u>
	474,515	603,235
Interest income	<u>18,150</u>	<u>46,950</u>
	<u>492,665</u>	<u>650,185</u>
Expenses		
Field operating costs	393,680	333,315
Depletion, depreciation and impairments (Note 4 and Note 6)	5,468,705	9,239,980
Accretion (Note 8)	56,855	48,935
Foreign exchange loss	-	1,685
General and administration	570,875	557,755
Inventory write down (Note 4)	-	16,200
Stock based compensation (Note 10)	<u>112,675</u>	<u>256,820</u>
	<u>6,602,790</u>	<u>10,454,690</u>
Loss before income taxes from continuing operations	(6,110,125)	(9,804,505)
Future income tax recovery (Note 9)	<u>-</u>	<u>(2,208,630)</u>
Net loss from continuing operations	(6,110,125)	(7,775,875)
Net loss from discontinued operations (Note 15)	<u>(113,250)</u>	<u>(6,937,575)</u>
Net loss	\$ (6,223,375)	\$ (14,713,450)
Deficit, beginning of year	<u>(32,638,395)</u>	<u>(17,924,945)</u>
Deficit, end of year	\$ <u>(38,861,770)</u>	\$ <u>(32,638,395)</u>
<b>Net loss from continuing operations per share</b> (Note 11)		
Basic and diluted	\$ <u>(0.10)</u>	\$ <u>(0.13)</u>
<b>Net loss from discontinued operations per share</b> (Note 11)		
Basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.12)</u>
<b>Net loss per share</b> (Note 11)		
Basic and diluted	\$ <u>(0.10)</u>	\$ <u>(0.25)</u>

See accompanying notes to the consolidated financial statements.

# International Frontier Resources Corporation

## Consolidated Statements of Cash Flows

Years ended December 31

2010

2009

### Operating

Net earnings (loss) from continuing operations	\$ (6,110,125)	\$ (7,775,875)
Non Cash Items:		
Depletion, depreciation and impairments	5,468,705	9,239,980
Accretion (Note 8)	56,855	48,935
Write down of inventory (Note 4)	-	16,200
Stock based compensation (Note 10)	112,675	256,820
Future income tax recovery (Note 9)	-	(2,028,630)
Asset retirement liabilities settled (Note 8)	<u>(286,375)</u>	<u>(60,830)</u>
	<b>(758,265)</b>	<b>(303,400)</b>
Change in non-cash operating working capital (Note 14)	<u>(61,570)</u>	<u>(107,785)</u>
Cash flow from continuing operations	<b>(819,835)</b>	<b>(411,185)</b>
Cash flow from discontinued operations	<u>(74,725)</u>	<u>15,690</u>
	<b><u>(894,560)</u></b>	<b><u>(395,495)</u></b>

### Investing

Additions to property and equipment	(470,125)	(357,420)
Decrease in restricted cash on deposit	-	1,626,505
Proceeds from sale of discontinued operations (Note 15)	3,788,970	-
	<b>405,225</b>	<b>(1,037,355)</b>
Change in non-cash investing working capital (Note 14)	<u>405,225</u>	<u>(1,037,355)</u>
Cash flow from continuing investing activities	<b>3,724,070</b>	<b>231,730</b>
Cash flow from discontinued investing activities	<u>(108,870)</u>	<u>(4,817,960)</u>
	<b><u>3,615,200</u></b>	<b><u>(4,586,230)</u></b>

Net increase (decrease) in cash and cash equivalents 2,720,640 (4,981,725)

Cash and cash equivalents (Note 14)

Beginning of year	<u>4,099,740</u>	<u>9,081,465</u>
End of year	<b>\$ <u>6,820,380</u></b>	<b>\$ <u>4,099,740</u></b>

See accompanying notes to the consolidated financial statements.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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### 1. Nature of operations and basis of presentation

The Company, since inception, is engaged primarily in the exploration for and development of petroleum and natural gas reserves. These activities are conducted in one geographical area, being Canada. These financial statements are denoted in Canadian dollars.

The consolidated financial statements include the accounts of the Company and its 50% jointly controlled interest in Sidox Chemicals Canada Ltd. ("Sidox Canada") accounted for on the proportionate consolidation method. 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.

Starting in 2008 and continuing into 2010, the global credit market crisis, the volatility in the price of oil and natural gas and the slowdown of economic growth in the rest of the world have created a substantially more volatile business environment. These conditions may limit certain of the Corporation's planned business development activities and will continue to present risks.

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### 2. Summary of Significant accounting policies

#### Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 calculation of asset retirement obligations include estimates of the ultimate settlement amounts, inflation factors, credit adjusted discount rates and timing of settlement.

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

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

#### Measurement uncertainty (continued)

The Company may from time to time issue flow-through shares to finance a portion of its capital expenditure program. The income tax deductions associated with the expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. To recognize the foregone tax benefits to the Company, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes when the expenditure renouncements are filed.

#### Property and equipment

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, whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized in a cost centre for each country in which the Company has operations. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both successful and unsuccessful wells 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.

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 before royalties as determined by independent engineers. 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.

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 this note. 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.

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 cost of unproved properties.

At the end of each reporting period, the Company looks for any indication of impairment; if any indication of impairment exists the company performs an impairment test with respect to the costs of its unproved properties. An impairment loss is recognized in net earnings when the carrying amount of its unproved properties exceeds their fair value assessed based on management's best estimate using the relevant information available at the time.

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

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

#### 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 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 operations. 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 operations. Actual expenditures incurred are charged against the accumulated obligation.

#### 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.

#### Financial Instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into one of the following categories: held-for-trading (assets and liabilities), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Cash and cash equivalents and restricted cash are classified as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable are classified as other financial liabilities, which are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

#### Financial Instruments (continued)

For financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method.

#### 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.

#### Intangible assets

The Company's proportionate share of an exclusive licensing agreement for the Sidox product in Canada is held by Sidox Chemicals Canada Ltd. The agreement covering an exclusive license for Canada has a ten-year term and costs related thereto were being amortized on a straight line basis over the period. Intangible assets are subject to an annual impairment test whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The entire net book value was deemed to have been impaired as of December 31, 2010.

#### 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 income tax rates. Changes in income taxes rates that are substantively enacted are reflected in the period the change occurs. A valuation allowance is recorded against any future income tax asset if the Company is not "more likely than not" to be able to utilize the associated tax deductions.

#### Per share amounts

Basic earnings per share are computed by dividing the earnings for the period by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

#### Stock-based compensation

The Company has a stock option plan as described in Note 10. The Company uses the fair value method of accounting for stock options granted to employees and directors. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized in the statement of operations at the date of grant as the options vest immediately. Compensation expense is adjusted for the estimated amount of forfeitures at the time compensation expense is recognized.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

#### 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 its customer. Other revenue is recognized in the period that the service is provided to the customer or when income is earned.

#### Changes in accounting policies and new pronouncements

- In January 2009, the CICA issued new standards for Business Combinations. This standard is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This standard replaces Handbook Section 1581 Business Combinations, and harmonizes the Canadian standards with IFRS. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. The adoption of this standard will not have a material impact on the Company's financial statements.
- January, 2009, CICA Handbook Section 1601 – Consolidated Financial Statements was issued which, together with new CICA Handbook Section 1602 – Non-controlling Interests, replaces the former Section 1600 – Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Report Standards IAS 27 – Consolidated and Separate Financial Statements. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation does not anticipate that these sections will have a material impact on its financial statements.
- In February 2008, the Canadian Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Company's comparative financial statements for 2010 will be restated using IFRS, including the opening balance sheet as at January 1, 2010. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The balances most affected by this change include property and equipment, asset retirement obligations, depletion and accretion, and share based payments.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

### 3. Capital Management

In the management of capital, the Company includes shareholders' equity and certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2010, the Company's capital as defined above was as follows:

	<u>2010</u>	<u>2009</u>
Total shareholder's equity	\$ 14,062,190	\$ 20,172,890
Working capital balances included:		
Cash and cash equivalents	6,820,380	4,099,740
Restricted cash	640,670	640,670
Payables and accruals	(607,600)	(212,575)
Current portion of asset retirement obligations	(224,260)	-
	<u>\$ 20,691,380</u>	<u>\$ 24,700,725</u>

The Company is in the business of oil and gas exploration in Canada. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company does earn revenue from properties owned in Alberta. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Corporation has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Corporation's current exploration programs the Corporation may require additional capital. The timing, pace, scope and amount of the Corporation's capital expenditures is largely dependent on the operators' capital expenditure programs and the availability of capital to the Corporation.

The Corporation may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional Common Shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Corporation's existing shareholders. In the current economic environment there can be no assurances that the Company can raise capital through the sale of its shares.

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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

The investment in Sidox Canada is subject to joint control and accordingly has been proportionately consolidated in these financial statements at December 31, 2010.

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

	<b>2010</b>	2009
<b>Assets</b>		
Cash	\$ 7,190	\$ 7,610
Receivables	8,560	8,560
Intangibles	-	25,000
	<b>15,750</b>	41,170
<b>Liabilities</b>		
Payables	-	-
<b>Net assets</b>	<b>\$ 15,750</b>	<b>\$ 41,170</b>
<b>Revenues</b>		
	\$ -	\$ -
<b>Expenditures</b>		
	<b>25,420</b>	28,600
<b>Net Loss</b>	<b>\$ 25,420</b>	<b>\$ 28,600</b>

At December 31, 2010, the Company wrote down its proportionate share of intangibles (Sidox license) by \$20,000 (2009 – Nil) to net realizable value of \$Nil.

At December 31, 2009, Sidox chemical inventory was written down by \$32,400 to its net realizable value of \$Nil. The Company's proportionate share of this write down of \$16,200 was recorded as an expense resulting in a net realizable value of \$Nil at December 31, 2009.

#### 5. Restricted cash on deposit

As at December 31, 2010, the Company has provided an assignment of cash totaling \$640,670 (2009 - \$640,670) as security on the irrevocable standby letters of credit for the Northwest Territories Exploration Licenses as follows:

	<b>2010</b>	2009
EL – 441 and EL – 445 (Note 13a)	\$ 335,115	\$ 335,115
EL – 443	305,555	305,555
	<b>640,670</b>	640,670
Current portion	<b>(335,115)</b>	-
	<b>\$ 305,555</b>	<b>\$ 640,670</b>

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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#### 6. Property and equipment

Property and equipment includes costs incurred in Canada to December 31, 2010. All costs incurred in the U.K. have been included in Discontinued Operations (Note 15).

<u>December 31, 2010</u>	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Impairments</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 29,546,705	\$ 22,046,050	\$ 7,500,655
Office furniture and equipment	<u>84,980</u>	<u>73,925</u>	<u>11,055</u>
Petroleum and natural gas properties	<u>\$ 29,631,685</u>	<u>\$ 22,119,975</u>	<u>\$ 7,511,710</u>

<u>December 31, 2009</u>	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Impairments</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 28,560,600	\$ 16,605,325	\$ 11,955,275
Office furniture and equipment	<u>84,980</u>	<u>70,950</u>	<u>14,030</u>
Petroleum and natural gas properties	<u>\$ 28,645,580</u>	<u>\$ 16,676,275</u>	<u>\$ 11,969,305</u>

During 2010, \$49,250 (2009 - \$65,475) of overhead expenses directly related to exploration activities in the Northwest Territories were capitalized.

As at December 31, 2010 the Company has net book value of capital costs for land, seismic, and drilling in Canada of \$7,500,655 (2009 - \$11,955,275). Included in this amount are costs of \$6,491,090 (2009 - \$10,072,160) which have been included in petroleum and natural gas properties as unproved properties and have not been included in the respective cost centers for purposes of calculating depletion. During 2010, the Company transferred \$4,189,210 of unproved property costs incurred in the Northwest Territories to the full cost pool.

In 2010, a \$5,032,270 (2009 - \$8,561,840) impairment of petroleum and natural gas assets in Canada has been recorded as part of depletion to reflect the excess carrying amount of assets over fair value of future reserves.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Increase Thereafter</u>
Alberta Bow River Hardisty Crude Oil (\$C/Bbl)	\$72.80	\$75.00	\$75.10	\$77.50	\$80.00	\$82.50	2.0%

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### 7. Intangible assets

<u>December 31, 2010</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Impairment</u>	<u>Net Book Value</u>
Sidox license	<u>\$ 50,000</u>	<u>\$ 30,000</u>	<u>\$ (20,000)</u>	<u>\$ -</u>
<u>December 31, 2009</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Impairment</u>	<u>Net Book Value</u>
Sidox license	<u>\$ 50,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>

### 8. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows before inflation required to settle its asset retirement obligations is approximately \$1,452,000 (2009 - \$832,500). A credit-adjusted risk-free rate of 9% and inflation rate of 2% was used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 327,720	\$ 339,615
Change in estimate	515,990	-
Liabilities settled	(286,375)	(60,830)
Accretion expense	<u>56,855</u>	<u>48,935</u>
Balance, end of year	\$ 614,190	\$ 327,720
Current portion	<u>(224,260)</u>	<u>-</u>
Long term portion	<u>\$ 389,930</u>	<u>\$ 327,720</u>

### 9. Income taxes

- a) The total provision for income taxes differs from the expected amount calculated by applying the combined federal and provincial tax rates of approximately 28.00% (2009-29.00%) to loss before income taxes. This difference results from the following items:

	<u>2010</u>	<u>2009</u>
Loss before income taxes from continuing operations	\$ (6,110,125)	\$ (9,804,505)
Expected tax recovery of combined federal and provincial statutory rates	(1,710,835)	(2,843,305)
Increase (decrease) resulting from:		
Rate differential	186,685	392,185
Stock based compensation	31,550	74,480
Other	<u>19,290</u>	<u>32,765</u>
	<u>(1,473,310)</u>	<u>(2,343,875)</u>
Valuation allowance	<u>1,473,310</u>	<u>315,245</u>
Future income tax recovery	<u>\$ -</u>	<u>\$ (2,028,630)</u>

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

**9. Income taxes** (continued)

b) Future income taxes consist of the following temporary differences and other items

	<b>2010</b>	2009
Excess of tax pools over carrying value of property and equipment	\$ 444,265	\$ (760,795)
Asset retirement obligations	153,550	81,930
Share issue costs	97,055	197,340
Non-capital loss carry-forwards	1,231,080	934,160
	1,925,950	452,635
Valuation allowance	(1,925,950)	(452,635)
Future income tax liability	\$ -	\$ -

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately \$4,922,600 (2009 - \$3,735,000) in Canada. The related benefit of these losses in Canada has been recognized in the consolidated financial statements to reduce future income taxes. Unless sufficient taxable income is earned, these losses will expire as follows:

	<u>Non-capital</u>
2011	\$ 265,000
2012	508,000
2013	593,000
2026	268,000
2027	634,000
2028	436,000
2029	965,000
2030	1,253,600
	\$ 4,922,600

The Company also has losses of \$12,900,000 to use to shelter future capital gains.

**10. Share capital**

a) **Authorized:**

Unlimited common shares  
Unlimited preferred shares

b) **Issued:**

	<b>December 31, 2010</b>		December 31, 2009	
	<b>Number of Shares</b>	<b>Amount</b>	Number of Shares	Amount
<b>Common shares</b>				
Balance, end of year	59,578,965	\$ 42,064,435	59,578,965	\$ 42,064,435

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### c) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2010, 4,206,500 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

	December 31, 2010		December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	3,895,000	\$ 0.26	1,015,000	\$ 1.16
Granted	2,000,000	\$ 0.10	3,320,000	\$ 0.10
Expired	(1,688,500)	\$ 0.17	(440,000)	\$ 1.16
Exercised	-	\$ -	-	\$ -
Balance, end of year	4,206,500	\$ 0.21	3,895,000	\$ 0.26

#### December 31, 2010

	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercisable Price
Exercise Price					
\$0.10	3,731,500	4.13	\$ 0.10	3,731,500	\$ 0.10
\$0.82	350,000	1.49	\$ 0.82	350,000	\$ 0.82
\$1.35 - \$1.95	125,000	0.01	\$ 1.95	125,000	\$ 1.95
	4,206,500	3.79	\$ 0.21	4,206,500	\$ 0.21

The weighted average fair market value of options granted in 2010 was \$0.06 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:

	December 31, 2010	December 31, 2009
Risk-free interest rate	2.49%	2.0%
Expected life of options	5 years	5 years
Volatility	82%	111%
Dividend yield rate	0%	0%

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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#### 10. Share capital (continued)

##### d) Contributed surplus:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Balance, beginning of year	\$ 10,746,850	\$ 10,490,030
Value attributed to stock options granted	<u>112,675</u>	<u>256,820</u>
Balance, end of year	<u>\$ 10,859,525</u>	<u>\$ 10,746,850</u>

#### 11. Per share

	<u>2010</u>	<u>2009</u>
Net earnings (loss) from continuing operations	\$ (6,110,125)	\$ (7,775,875)
Weighted average number of shares	<u>59,578,965</u>	<u>59,578,965</u>
Basic and diluted loss per share	<u>\$ (0.10)</u>	<u>\$ (0.13)</u>
Net loss from discontinued operations	\$ (113,250)	\$ (6,937,575)
Weighted average number of shares	<u>59,578,965</u>	<u>59,578,965</u>
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.12)</u>
Net earnings (loss)	\$ (6,223,375)	\$ (14,713,450)
Weighted average number of shares	<u>59,578,965</u>	<u>59,578,965</u>
Basic and diluted loss per share	<u>\$ (0.10)</u>	<u>\$ (0.25)</u>

In calculating diluted common share amounts for the year ended December 31, 2010, the Company excluded 4,206,500 (2009 – 3,895,000) options, because the exercise price was greater than the average market price of its common shares during the year.

#### 12. Related party transactions

During 2010, the Company paid compensation to certain officers and directors as follows:

	<u>2010</u>	<u>2009</u>
Executive officers compensation	\$ 166,500	\$ 109,500
Royalty incentive program	<u>99,910</u>	<u>11,145</u>
	<u>\$ 266,410</u>	<u>\$ 120,645</u>

At December 31, 2010, \$7,310 (December 31, 2009 – \$10,475) of the above amounts were included in payables and accruals.

During 2010, the company paid professional legal fees of \$52,870 (2009 – \$17,270), to a law firm in which a director of the company is a partner. In June 2010, the director resigned and was no longer affiliated with the company.

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.

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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#### 13. 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 \$640,670 (2009 – \$640,670). The Company is contingently liable under the letters of credit for \$640,670 (2009 - \$640,670). The deposits will be refunded by \$1 for every \$4 spent on qualified expenditures on each exploration license.

At December 31, 2010, the Company has included a provision of \$266,365 with respect to EL – 441 in payables and accruals (2009 - \$68,750 for EL-445). The consortium did not fulfill its work commitment on these licenses and the licenses will be relinquished and the amounts held in restricted cash will be paid out upon expiry in May 2011. All costs related to EL-441 have been impaired at December 31, 2010.

- b) The Company is party to an agreement to lease its premises until December 31, 2014. The annual rent of premises consists of a minimum rent plus occupancy costs. Minimum rent payable for premises until the end of the lease is:

2011	\$53,980
2012	\$43,120
2013	\$43,120
2014	\$43,120

- c) The Company has established a Royalty Incentive Agreement for officers who are also Directors and consultants. Under the plan, the compensation committee issues units and pays royalties on an annual basis to employees, consultants and directors. The units entitle the holder to receive an annual payment based on 2% of the Company's annual gross oil and gas production revenue, net of transportation and processing fees from licenses and lands owned by the Company. Under the terms of the agreement, once the Company has recovered payout of 100% of its cumulative annual capital expenditures from licenses and lands owned by the Company, the payment to employees, consultants and directors is based on 4% of the Company's annual production revenue less transportation and processing fees. At December 31, 2010, payout of 100% of cumulative annual capital expenditures had been reached on the Alderson property as a result costs of \$24,120 (2009 - \$14,965) was booked with respect to this plan.

#### 14. Supplemental cash flow information

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

	2010	2009
Receivables	\$ 24,730	\$ (81,705)
Prepays and deposits	(76,100)	(71,740)
Payables and accruals	395,025	(991,695)
	\$ 343,655	\$ (1,145,140)
Operating activities	\$ (61,570)	\$ (107,785)
Investing activities	405,225	(1,037,355)
Financing activities	-	-
	\$ 343,655	\$ (1,145,140)

# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### 14. Supplemental cash flow information (continued)

	2010	2009
Taxes paid	\$ <u>          -</u>	\$ <u>          -</u>
Interest paid	\$ <u>          -</u>	\$ <u>          -</u>
Cash and cash equivalents are comprised of:		
Cash	\$ <b>820,380</b>	\$ 3,729,270
Short term bankers' acceptances (bearing interest rates ranging from 0.15% - 1.0% (2009: 0.15% - 0.75%))	<u><b>6,000,000</b></u>	<u>370,470</u>
	<u><b>\$ 6,820,380</b></u>	<u>\$ 4,099,740</u>

### 15. Discontinued Operations

- a) On December 14, 2009, the Company entered into an agreement to sell its 8.33% interest in UK License P.233 (Maria block 15/18a) for proceeds of \$650,000 USD. On April 13, 2010, the Company closed the sale and received proceeds of CAD \$669,450
- b) On March 25, 2010, the Company entered into an agreement to sell 100% of the ordinary shares in its wholly owned U.K. subsidiary Britcana Energy Ltd. to Nexen Petroleum U.K. Limited for consideration of \$3,000,000 USD to be received upon closing. On April 13, 2010 the Company closed the sale and received proceeds of CAD \$3,119,520.

As a result of the above sales the Company paid royalties to employees, consultants and senior officers in the amount of \$75,795.

The Company's net investment in Britcana Energy Ltd. and its North Sea operations for the period ended December 31, 2010 have been presented as discontinued operations in these financial statements. Consequently, as a result of classification of Britcana's North Sea activities as discontinued operations, the Company now has one reportable geographical segment.

A summary of discontinued U.K. operations is as follows:

	2010	2009
Oil revenues, net	\$ <u>          -</u>	\$ <u>          -</u>
Less: royalties	<u>          -</u>	<u>          -</u>
	-	-
Foreign exchange gain	<u><b>5,780</b></u>	<u>          -</u>
	<u><b>5,780</b></u>	<u>          -</u>
Expenses		
Depletion, depreciation, impairments and writedowns	<b>38,260</b>	<b>6,664,380</b>
Foreign exchange (gain) loss	-	<b>286,735</b>
General and administration	<b>80,770</b>	<b>13,270</b>
Bad debt expenses (recovery)	<u>          -</u>	<u><b>(26,810)</b></u>
	<u><b>119,030</b></u>	<u><b>6,937,575</b></u>
Net loss from discontinued operations	<u><b>\$ (113,250)</b></u>	<u><b>\$ (6,937,575)</b></u>

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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#### 15. Discontinued Operations (continued)

The following table represents the balances that have been classified on the consolidated balance sheets as discontinued operations:

	2009
Cash	\$ 3,660
Receivables	9,020
Property and equipment	3,965,335
Total assets of discontinued operations	3,978,035
Receivables	(56,415)
Asset retirement obligations	(203,000)
Total liabilities of discontinued operations	(259,415)
Net assets of discontinued operations	\$ 3,718,620

#### 16. Financial Instruments

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, restricted cash, trade accounts receivable, 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 portion of the Company's financial assets at the balance sheet date arise from crude oil sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

At December 31, 2010, substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its oil through one marketer the increased risk arising from exposure to one entity is mitigated by the fact that oil production is not a significant part of the Company's business at this time as the Company is engaged primarily in the exploration for and development of petroleum and natural gas reserves.

The following table presents the aging of the Company's accounts receivable at December 31, 2010:

Total receivables:	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 119,570	\$ 92,810	\$ -	\$ 18,200	\$ 8,560

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets. There are no material financial assets that are past due. During 2010, there was no allowance for doubtful accounts recorded as all amounts outstanding at December 31, 2010 are deemed collectible.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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### 16. Financial Instruments (continued)

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account. At December 31, 2010, the Company's allowance for doubtful accounts balance was \$Nil (2009 – \$Nil).

#### b) 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 with respect to funds invested in short term marketable securities. As at December 31, 2010, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

#### c) Liquidity Risk

Liquidity risk includes the risk that:

- 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 budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash and cash equivalents balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

At December 31, 2010 the Company had cash and cash equivalents of \$6,820,380 (2009 - \$4,099,740), and working capital was \$6,457,185 (2009 - \$7,865,635). The Company has sufficient working capital to fund its share of its current 2011-2012 budgeted firm and contingent capital expenditures forecast.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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### 16. Financial Instruments (continued)

#### d) Fair value of financial instruments

The Company's financial instruments as at December 31, 2010 and 2009 include cash and cash equivalents, trade accounts receivable, restricted cash and trade accounts payable. The fair values of trade accounts receivable and trade accounts payable approximate their carrying amounts due to their short terms to maturity. The restricted cash balances are equal to their fair values. The Company classifies the fair value of financial instruments held for trading according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2010 cash and cash equivalents and restricted cash have been classified as Level 1.