INTERNATIONAL SOVEREIGN ENERGY CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Form 51-102F1

FOR THE THREE AND SIX MONTH PERIODS ENDED June 30, 2008

August 14, 2008

INTERNATIONAL SOVEREIGN ENERGY CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION OF THE COMPANY
FOR THE THREE MONTH AND SIX PERIOD ENDED JUNE 30, 2008

The following is management's discussion and analysis ("MD&A") of International Sovereign Energy Corp.'s (the "company") operating and financial results for the period ended June 30, 2008 as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's unaudited consolidated financial statements and the accompanying notes for the periods ended June 30, 2008 and 2007. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This MD&A is dated August12, 2008. Disclosure contained in this document is current to that date, unless otherwise noted. All amounts in this MD&A are in Canadian dollars, except where otherwise stated. Additional information relating to the Company is available on www.sedar.com.

Forward-Looking Information

This MD&A contains forward-looking or outlook information which reflects management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities. The use of words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "forecast", and similar expressions are intended to identify forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in these forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; changes in business strategy or development/acquisition plans; environmental exposures, financing risk; existing governmental regulations; liability and other claims asserted against the Company; and other factors referred to in the Company's filings with Canadian securities regulators Although management believes the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that actual results will be consistent with these forward-looking statements. Readers should not put undue reliance on forward-looking information. These statements are made as of the date hereof and management assumes no obligation to update or revise these statements to reflect new events or circumstances, except as required by law.

International Sovereign Energy Corp. (the "Company") is a Canadian based petroleum and gas exploration and production company. The Company is active in the exploration and development of hydrocarbon reserves in Western Canada and internationally, primarily in low to medium risk exploration and exploitation opportunities. This low risk approach provides the Company with a substantial asset base from which to identify and pursue late stage exploration or early stage development opportunities internationally.

Board of Directors and Management

On June 23, 2008 the Company held its Annual General Meeting of Shareholders, at which the shareholders elected a new Board of Directors (the "Board"). The Chief Executive Officer, Chief Financial Officer and Senior Vice President Administration and Corporate Secretary considered themselves to be terminated. Subsequent to the Annual General Meeting of Shareholders the Board-elect appointed new management of the Company.

Definitions:
boe/d: barrels of oil equivalent per day
bopd: barrel of oil per day
Mcf/d: Thousand of cubic feet per day
MMcf/d: Millions of cubic feet per day
bbl: barrel

Production and Revenue

Revenues for the six-month period were $9,367,025, an increase of 202% from the 2007 level of $4,638,987. For the second quarter, revenues were $5,389,527 compared to $2,121,375 in 2007, an increase of 254%. Average production over this period increased from 600 boe/d in the second quarter of 2007 to 829 boe/d in the same period of 2008, an increase of 38%. The Company exited the quarter at 892 boe/d. Average oil production for the first half of 2008 was 233 boe/d as compared to 249 boe/d in the first half of 2007. During the same period average gas production increased from 2,106 Mcf/d at June 30, 2007 to 3,576 Mcf/d at June 30, 2008 (351 bopd equivalent to 596 bopd equivalent, an increase of 245 bopd equivalent). The overall increase is primarily from the increased gas production from Peace River and Medicine River areas and an increase in oil prices; from an average of $50.69/bbl in 2007 quarter to $97.00/bbl in 2008 quarter. Average gas prices increased to $10.20/Mcf in the second quarter of 2008, compared to $6.95/Mcf average price in the corresponding period of 2007.

During the first half of 2008, the Company drilled three successful gas wells. The first well was tied-in and on stream in late March, the second in late June, and the third in mid July 2008. Production from these three wells is estimated to be in the region of 200 boe/d net to the Company. For over a year the Company had the capability to produce an additional 250 boe/d from the Berwyn field, however due to third party pipeline constraints was unable to do so. Recently there have been new developments in reference to the availability of pipeline capacity. Accordingly, the Company is planning to bring this production online in the latter half of 2008.

Royalties

Royalty increased from $703,151 at June 30, 2007 to $1,896,229 at June 30, 2008; for the quarter from $439,153 to $1,074,952. The significant increase was due to higher production in the first half of 2008 and the Company paying the maximum royalty rate at Berwyn, Medicine River and Peace River areas; wells from these areas are high gas producing wells and consequently maximum royalty rates are applied.

Operating and transportation costs

Operating and transportation costs totaled $1,532,619 in the first half of 2008, compared to $1,667,521 in 2007, which equates to $10.16/boe, down from $15.34/boe in the same period of 2007. The decrease on per boe/d basis was due to reduced operating expenses at the newer gas properties.

General and Administrative

Total general and administrative expenses increased by 274% from $1,001,713 in the second quarter of 2007 to $2,747,621 in the same period of 2008. The increase in expenses is due to severance payouts taken by the previous executives of the Company, who unilaterally considered themselves to be terminated, amounting to $1.2 million and costs incurred for shareholders to vote on a new Board.

Interest

The bank interest expense was $87,024 in 2008 quarter as compared to $26,818 in 2007. As at June 30, 2008, the Company had drawn $3,059,000 from its available operating line of credit of $6,000,000. On July 27, 2008, the financial institution informed the Company that it was in default of its “change of control” clause of the credit facility as there was a change in both the Board and Executive Management that the facility will be reduced to $4,000,000 until September 30, 2008 when the Company’s line of credit will be subject to a review.

Depletion and Depreciation and Accretion

The total depletion, depreciation and accretion provision was up from $1,431,364 in 2007 to $7,187,606 in 2008 for the comparative six month period primarily due to increased production and a provision taken against certain international developments. The Company performed an impairment test calculation on June 30, 2008 in accordance with “AcG-16, Oil and Gas Accounting-Full Cost” to assess the recoverable value of the asset. As a result of this calculation, the Company has made an impairment provision against its international petroleum and natural gas properties in Ecuador, Ghana, Columbia and Yemen, totaling $4,234,660 for the quarter ended June 30, 2008.

Asset Retirement Obligation

For the second quarter of 2008 the asset retirement obligation (“the ARO”) increased by $45,637, property plant and equipment decreased by $38,002 net of depletion, and the net income decreased $77,722 to reflect the impact of accretion and depletion expense for the quarter. For the same period in 2007 the ARO increased by $43,459, PP&E decreased $19,084 net of depletion, and net income decreased $56,611 to reflect the impact of accretion and depletion for the quarter.

Capital Expenditures

Total capital expenditures for the second quarter of 2008 were $3,137,564 compared to $2,221,853 at June 30, 2007. The increase in capital expenditure was due to successful drilling of three gas wells. The first well was tied-in and on stream in late March 2008. The second well was tied-in and production started in late June 2008. Production from the third well started in mid July 2008. Production from these three wells is estimated to be 200 boe/d net to the Company.

Management has undertaken a review of its Charapa Concession in Ecuador associated with the prospect of investing approximately further $10million to bring the field into production. It is also in discussions with previous shareholders of its Bellwhether International Inc. subsidiary, which owns the Company's interest in the Charapa Concession, to resolve the issue of approximately $14 million of shareholder loans which were to be assigned to the Company.

The Company has accepted an offer to sell its Marwayne heavy oil assets for cash consideration of $2.4 million. The closing is scheduled for September 17, 2008 and is subject to customary due diligence and regulatory consents. The proceeds will be redeployed in accordance with the Company's strategic plan to be released shortly.

Liquidity and Capital Resources

At June 30, 2008 the Company's market value of common shares was $17,549,386 based on the closing price of $1.26 per share on the 13,928,084 shares outstanding. This compares to a market value of $21,859,241 at the end of June 30, 2007 based on the closing price of $1.57 per share and 13,923,084 shares outstanding. Cash flow from operations was $3,145,679 up 241% from $1,304,064 at the end of the corresponding period of 2007. The cash flow from operations on a per share basis increased from $0.09 per basic weighted average share in 2007 to $0.23 per basic weighted average share in 2008. This increase is attributable to increased production and reduced expenses in 2008 from the corresponding period in 2007. Cash flow from operations detail is provided to assist investors in determining the ability of the Company to generate cash from operations. It is calculated as being net earnings adjusted for items that do not affect cash. This measure does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies.

Stock Based Compensation and Other Stock Based Compensation

The Company recognized compensation expense of $94,656 in the 2008 period as compared to $73,437 for the same period in 2007 in the Consolidated Statements of Earnings, with a corresponding increase recorded to contribute surplus in the Consolidated Balance Sheets.

Contractual Obligations

As part of normal operations, the Company is a party to various financial guarantees, letters of credit and other contractual commitments. Oil sales from Company production are contracted on a month-to-month evergreen basis and gas sales from Company production are contracted on an annual basis commencing each November. It is intended that the senior executive officers are party to a separate employment services agreement with the Company the terms of which have not yet been finalized. The Company also has a letter of credit outstanding totaling $7,500 to maintain its status as a licensed well operator in the province of British Columbia.

The Company also has a legal obligation to reclaim the lands on which it has production wells and/or facilities. These obligations come due at varying times, dependent upon when economic production ceases and the property is then available for abandonment and reclamation operations.

Disclosure Controls and Procedures

The Company has established disclosure controls, procedures and policies so that the consolidated financial results are presented accurately, fairly and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities regulation is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external reporting purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have designed internal controls over financial reporting or have caused them to be designed under their supervision to provide reasonable assurance regarding the reliability of financing reporting and the preparation of financial statement for external reporting purposes in accordance with Canadian GAAP.

Although management does not believe that any significant deficiencies exist in the Company’s internal controls over financial reporting at June 30, 2008 that would result in a material misstatement of the Company’s financial reporting, the Company continues to evaluate its processes and internal controls on an ongoing basis. There were no changes in internal control over financial reporting during 2008 period.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity prices, interest rates, exchange fluctuations, international political climate as well as environmental concerns and the success of future drilling. The Company attempts to reduce and manage those risks which are controllable.

Safety and Environmental

Safety and environmental concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental regulations.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates. Due to timing of when activities occur compared to the reporting of those activities, management estimate and accrue operating results and capital spending. Changes in these judgments and estimates could have a material impact on the Company's financial results and financial condition.

The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the start of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Beginning January 1, 2007 the Company adopted Section 1506 "Accounting Changes" the only impact of which is to provide disclosure of when an entity has not applied a new source of Canadian GAAP that has been issued but is not yet effective. This is the case with Section 3862 "Financial Instruments Disclosures" and Section 3863 "Financial Instruments Presentation" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company adopted these standards on January 1, 2008 and the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the Company's financial position and performance and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

On January 1, 2007 the Company also adopted CICA Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments Recognition and Measurement", and Section 3865 "Hedges". The Company has evaluated the impact on the Company's net earnings or cash flows, the effects of the implementation of the new standards are discussed below.

Comprehensive Income
The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Because the Company does not have any OCI, the Company's consolidated financial statements do not include a Statement of Comprehensive Income, which

would otherwise describe the components of comprehensive income ("AOCI"), the Company has not presented AOCI as a new category within shareholder's equity in the consolidated balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

As of July 1, 2007, the Company was required to adopt CICA Handbook Section 3031 "Inventory". This new standard is effective for interim and annual financial statement relating to fiscal years beginning on or after July 1, 2007. This new standard has no impact on the Company's consolidated financial statements.

As of January 1, 2008 the Company adopted CICA Handbook Section 1535 "Capital Disclosures", which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirement. For further information see note 10 of the financial statements.

Depletion:
The Company accounts for oil and gas properties using the full-cost method of accounting. Under this method, depletion and restoration expenses are recorded using the unit-of-production method. All expenses related to exploration and development of oil and gas reserves are capitalized on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling productive and non-productive wells and overhead charges related directly to acquisition, exploration and development activities.

Depletion is an estimate of the reduction in recoverable costs of oil and gas properties during the year, matched against the related income. It is based on reserve estimates, which are evaluated by an independent third party. The determination of the quality or quantity recoverable reserves is also an area of risk. Oil and gas reserves are integral to assessing expected future financial performance, preparing financial statements and making investment decisions. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, including many factors beyond the Company's control. The reserves used in calculating depletion and impairment of capital assets represents estimates only.

The Company mitigates this risk by having the reserves evaluation performed by a reputable third party consultant annually. The Company's Reserves Committee of the Board reviews the work and independence of this firm.

Costs of acquiring and evaluating unproven properties in Canada and costs of exploration and land in international cost centers are initially excluded from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for that country's cost center. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

Future Income Taxes:
The Company accounts for future income taxes using the liability method. Future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax bases. Future income tax expense is computed based on the change during the year in the future tax assets and liabilities. Future income tax expense is computed based on the change during the year in the future tax assets and liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary tax differences are expected to reverse. Any effect of changes in tax laws and tax rates are recognized when enacted. For the period ended June 30, 2008 this future income tax recovery was calculated to be $846,065 compared to $126,023 at the end of the corresponding period in 2007.

Reserves Disclosure:
The process of estimating reserves is critical to several accounting estimates. It required significant judgment based on available geological, geophysical, engineering and economic date. These estimates may change substantially as data from ongoing development and production activities becomes available, and as economic conditions impacting oil and gas prices, operating costs and royalty burdens change. Reserve estimates impact net income through depletion, the determination of asset retirement obligations and the application of an impairment test. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and the asset retirement obligation.

Where any disclosure of reserves data is made in this MD&A, it may not reflect all reserves of the Company. It should be noted that the estimates of reserves and future net revenue for individual properties or groups of properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties. Any reference to “established reserves” has the meaning of the January 1, 2003, COGE (“Canadian Oil and Gas Evaluation”) Handbook being proved plus 50% of probable reserves, which is similar but not identical to the January 1, 2004 COGE Handbook definition of proved plus probable reserves.

Outlook

Since the annual general meeting the Board and management have been immersed in the review of the assets and operations of the Company and assessing the opportunities to enhance shareholder value.

The volatility of the oil and gas markets affects all producers and the higher prices have benefited the Company. There is much discussion on the pricing levels of oil and gas and it is difficult for the Company to project where these will be at any point in time.

However, we see opportunities to expand our presence in the Canadian market place through a selective program of acquisition of oil and gas producing properties under acceptable financial conditions. Through such a program, the Company will increase production, revenue and profit streams and be able to generate the funds to fund further acquisitions as those become available.

Domestic

The Boundary Lake area, located within the Peace River Arch, continues to be a successful field for the Company. Since September 2007, the Company has brought a total of 4 wells online, 2 of which came online during Q2 2008, totaling approximately 370 boe/d net to the Company. The Company was successful in acquiring additional lands in the area subsequent to the quarter end. The Company will continue to develop this area with its joint venture partner.

At Berwyn, Alberta, the Company drilled an initial well in March, 2006 which well came online from the Gething formation at 1.0 MMcfd (165 boe/d) with an estimated 1,500 Mcfd (250 boe/d) "behind pipe" from three zones. Originally, the pipeline constraints, as previously discussed, prevented the Company from developing this field without a capital inensive drilling program. However, the pipeline now appears to have additional capacity for the Company to drill additional wells. The Company plans to drill a 2-11 twin well for the Bluesky formation in the second half of 2008, and bring it online shortly following the completion. Once the Company evaluates how the gathering system reacts to the additional gas, further drilling will commence.

International

The international properties in Pakistan and Ecuador will receive close scrutiny so that the Company can best benefit from those significant investments.

Pakistan

The Company signed two Farm-In Agreements with Mari Gas Company Limited ("MGCL") of Pakistan, the second largest producer of gas in Pakistan. The Company's direct working interest ("WI") in each block is fifteen percent (15%) with all the work and management performed by a seasoned and well established gas producer. Approval of the Sukkur Block by the Government of Pakistan has been obtained and approval of the Sujawal Block is pending. The initial strike recently reported on July 31, 2008, will be followed up by further development in the Sukkur field, while development will commence shortly in the Sujawal field. The Company will be required to fund its proportionate costs of the development programs.

Sukkur Block

The Sukkur Joint Venture ("SJV") is comprised of MGCL, the operator, with a 50% WI, Petroleum Exploration Limited, a Pakistani exploration and production company with a 35% WI and the Company, as mentioned above, with a 15% WI. SJV is also exploring 2 other prospects within the Sukkur Block.

The Koonj Well #1A in the Sukkur Exploration Block, in which the Company has a 15% working interest, has been successfully drill-stem tested with a gas flow rate of 8.61 MMcfd (1,435 boe/d). The gas flow rates from the Sui Main Limestone are expected to increase significantly with acid stimulation treatment which is due to be carried out in the near future.

The drilling of Structure ‘B’, which covers a 4.1 sq. km area, is expected to immediately follow the completion of the first well. Both prospects are within 5 km from a main gas pipeline so that a discovery can be brought on stream on a fast track basis.

Sujawal Block
This 2,416.43 sq.km block is also situated in Sindh Province (100 Kms from Karachi), Southern Pakistan. The Sujawal Block is situated next to the Badin area which contributes some 50% of Pakistan’s hydrocarbon production. Numerous oil and gas discoveries exist to the East of the block. MGCL has completed the re-interpretation of vintage 2D seismic from which a Lower Goru sand lead has been identified. Additional 2D and 3D seismic is to be acquired during 2008 and, following interpretation, the drilling of an exploratory well is scheduled to be drilled.

Ecuador
The Ecuador property is currently being analyzed in detail and a working plan will be developed, in conjunction with the local authorities, to identify the method to achieve the maximum returns for both the Company and for Ecuador. This project is 100% owned by the Company and, as such, the Company is responsible for 100% of the costs and the attendant risks with, what is in effect, an under developed property.

Annual and Quarterly Information

2008 Quarterly Information	Qtr1	Qtr2	Qtr3	Qtr4	Annual
Gross Revenues after Royalties	3,183,172	4,335,635			
Total Assets	37,642,192	36,579,019			36,579,019
Cash Flow from Operations	1,910,636	1,224,869			3,135,505
Basic Per Share	0.14	.09			0.23
Diluted Per Share	0.14	.09			0.23
Net Income/Loss	489,464	(3,776,983)			(3,287,519)
Basic Per Share	0.04	(0.27)			(0.23)
Diluted Per Share	0.04	(0.27)			(0.23)

2007 Quarterly Information	Qtr1	Qtr2	Qtr3	Qtr4	Annual
Gross Revenues after Royalties	$2,293,243	$1,713,492	$2,068,358	$1,995,528	$8,070,621
Total Assets	32,956,151	33,600,858	34,261,704	35,444,093	35,444,093
Cash Flow from Operations	1,058,398	232,669	625,461	721,713	2,638,241
Basic Per Share	.08	.01	.04	.06	.19
Diluted Per Share	.08	.01	.04	.06	.19
Net Income/Loss	39,772	(114,486)	(167,593)	(92,483)	(334,790)
Basic Per Share	.01	(.01)	(.01)	(.01)	(.02)
Diluted Per Share	.01	(.01)	(.01)	(.01)	(.02)

2006 Quarterly Information	Qtr1	Qtr2	Qtr3	Qtr4	Annual
Gross Revenues after Royalties	$1,577,128	$1,537,469	$1,659,661	$1,954,848	$6,729,106
Total Assets	30,574,683	32,404,142	31,942,005	34,958,421	34,958,421
Cash Flow from Operations	804,347	728,535	860,916	1,068,951	3,458,273
Basic Per Share	0.07	0.06	0.06	0.08	0.26
Diluted Per Share	0.06	0.05	0.06	0.08	0.26
Net Income	87,587	637,137	309,772	(969,060)	65,436
Basic Per Share	0.01	0.05	0.02	(0.07)	0.01
Diluted Per Share	0.01	0.04	0.02	(0.07)	0.01

For the purpose of cash flow per share calculations, cash flow is defined as “Cash flow from operations” before the charges in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measure used by other companies.