

**INTERNATIONAL SOVEREIGN ENERGY
CORP**

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

Form 51-102F2

**FOR THE THREE AND NINE MONTH PERIODS ENDED
September 30, 2008**

November 13, 2008

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

The following is management's discussion and analysis ("MD&A") of International Sovereign Energy Corp.'s (the "Company" or "ISR") operating and financial results for the period ended September 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 September 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 November 14, 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.

ISR 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 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 ("AGM") of the Shareholders, at which the shareholders elected a new board of Directors. Subsequent to the AGM the new board appointed new senior management of the Company.

On assuming responsibility for the affairs of the Company, the board and management were faced with a number of significant issues, as follows:

- The credit facility with its banker had been utilized approximately to the extent of \$4 million. The line of credit had been approved at maximum \$6 million. Included in the bank debt was an amount of approximately \$1.2 million that previous management had, immediately prior to the AGM, considered themselves entitled to as a change of control payment under their respective employment contracts. The Company has instituted legal proceedings to challenge the validity of these payments.

- The Company's banker served notice that the Company was in default of its change of control covenant as defined in the credit facility. This matter was resolved subsequently to the satisfaction of the Bank although the credit facility was reduced to \$4,000,000 with an extension date to September 30, 2008. However at September 30, 2008, the credit facility was not being utilized and is available.
- At June 30, 2008, ISR was in arrears with its obligations under the Pakistan farm in agreements related to the Sukkur and Sujawal fields. These obligations exceeded \$1,000,000. During the 3rd quarter, an amount of \$500,000 related to the Sukkur development was transferred and the requirement to issue a performance bond guarantee related to the Sujawal field was posted subsequent to September 30, 2008. ISR has now complied with its financial obligations.
- In Ecuador, ISR was in default of its obligations to Petro Ecuador and seriously in arrears with various suppliers regarding the Charapa/Conejo Concession work program. Subsequent to September 30, 2008, ISR renewed the performance bond, and prepared a revised work program after meeting with Petro Ecuador officials.
- The Charapa/Conejo license is held by the ISR wholly owned subsidiary, Bellwether International Inc. (BII). The effective date of the share purchase was March 23, 2008, and was only recording in the Company financial statements effective the second quarter. However, and as reported on in the second quarter financial results, certain indentified loans payable by BII to previous shareholder corporations or their subsidiaries, approximately in the amount of \$14.5 million, all of which were subject to assignments by the owner of the shares of BII to the then current owner of the BII shares, had not been assigned by the previous owner of BII to ISR at the date of the transfer of the shares to ISR. This omission by previous management is the subject of ongoing negotiations with the seller of the BII shares and so that ISR will be the beneficiary of the assignments, as had originally been contemplated. ISR anticipates resolution to this matter with limited financial effect.
- The board and management reviewed the property portfolio of ISR and determined that potential existed to increase the production base within Canada. Accordingly, various projects were identified as having significant potential to achieve results and these were prioritized according to the cost and the time to bring these on stream. The first of these projects was Berwyn 7-11, which was brought into production on November 1, 2008. The flow rate is not at its full potential due to testing of the gathering system, but it is anticipated to be in the range of 250 BOED. This represents an increase of 25% over existing production.
- During the quarter, Koonj Well #1A in the Sukkur development was successfully tested and is now being prepared for tie-in into the gas gathering system. Initial flows from this first well is 224 BOED to ISR and is now in the process of being tied-in for commercial sales.
- The depth and extent of the credit crisis has greatly affected commodity prices, ISR like all other commodity based businesses, is feeling the effect of these changes. As a junior player in the global energy market, the Company has no influence on the macro metrics that affect profitability and sustainability. It does, however, have greater control of its internal operations and, accordingly, strict cash control has been exercised from the date the new board and management assumed responsibility for the Company.

Recognising that the credit and equity markets were going to be significantly affected, with a resultant lack of confidence in the markets, and despite market turmoil, ISR was able to complete a share issue in September that raised a net \$2.4 million. Although a small issue, it was significant to ISR as it not only demonstrated shareholder confidence in the Company and its new management. This infusion of capital also allowed ISR to eliminate its bank debt while also spending \$1 million on capital projects during the quarter and in providing cash availability of approximately \$2 million at September 30, 2008.

The result of effective cash management has placed ISR in an enviable position in that cash flow from operations is no longer required to discharge debt or pay interest costs, but is now available for further development of its properties.

In summary, in the four short months since assuming responsibility for the affairs of ISR, the board and new management have been able to use the positive cash flow from operations, plus the benefit of a share issue in a difficult credit and equity market, to move the Company forward with a sound capital program that will build production, increase profitability and cash availability, while restoring sound operational and fiscal relationships with its international partners. It has also eliminated debt, reduced and controlled overhead expenditures and placed the Company on a sound financial base on which to grow.

In the event that commodity prices decline further from current levels, ISR is well placed to weather this, again through careful cash management, while capitalizing on the internal opportunities that require low capital expenditure as related against their performance potential.

Overview

	Three months ended September 30			Nine Months ended September 30		
	2008 \$	2007 \$	Change %	2008 \$	2007 \$	Change %
Revenues:						
Petroleum and Natural gas sales	5,563,108	\$ 2,487,542	124	14,930,133	7,126,529	110
Royalties	(929,812)	(446,288)	108	(2,826,041)	(1,149,439)	146
Lease operating costs	(959,553)	(642,857)	49	(2,279,416)	(2,065,523)	10
Transportation	(262,809)	(205,162)	28	(475,565)	(450,017)	6
Operating netback						
Other income	11,592	27,104	(57)	59,604	98,003	(39)
Interest	(26,539)	(142,498)	(81)	(113,563)	(169,316)	(33)
Unrealized loss on financial derivatives	(3,849)	(1,954)	97	(6,714)	(8,573)	(22)
General and administrative	(546,637)	(448,421)	22	(3,297,258)	(1,450,134)	127
Funds from operations						
Depletion, depreciation and accretion	(1,362,863)	(746,879)	82	(3,460,627)	(2,178,243)	59
Impairment of international assets	-	-	-	(5,089,843)	-	-
Stock based compensation expense	(65,241)	(47,328)	38	(159,897)	(120,765)	32
Income before taxes						
	1,417,397	(166,741)	950	(2,719,187)	(367,478)	640
Future income tax (expense), recovery	(267,461)	(852)	-	578,604	125,171	362
Net income (loss)						
	1,149,936	(167,593)	-	(2,140,583)	(242,307)	-
Funds from operations per share:						
Basic (\$)	0.20	0.05	300	0.43	0.14	207
Diluted (\$)	0.18	0.05	260	0.40	0.14	186
Net income (loss):						
Basic (\$)	0.08	(0.01)	-	(0.15)	(0.02)	-
Diluted (\$)	0.07	(0.01)	-	(0.14)	(0.02)	-
Average number of shares outstanding						
Basic	14,210,867	13,928,084	2	14,023,033	13,928,084	1
Diluted	15,416,192	13,928,084	11	14,984,575	13,928,084	8

(1) *Funds from operations is a non-GAAP measure that does not have a standardized meaning as prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other oil and gas companies. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.*

(2) *Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.*

(3) *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

Funds from Operations and Net Earnings (Loss)

	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Funds from operations	2,845,501	627,466	353	5,991,180	1,931,530	210
Per share:						
Basic (\$)	0.20	0.05	300	0.43	0.14	207
Diluted (\$)	0.18	0.05	260	0.40	0.14	186

Funds from operations for the three months ended September 30, 2008 totaled \$2,849,350 or \$0.20 per share, compared to \$629,420 for the same period in 2007. This increase is primarily due to the additional production volumes from the Boundary Lake area in mid 2008. For the nine months ended September 30, 2008, funds from operations were \$5,997,894 or \$0.43 per share, compared to \$1,940,103 for the same period of 2007.

	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Net income (loss)	1,149,936	(167,593)	-	(2,140,583)	(242,307)	-
Per share:						
Basic (\$)	0.08	(0.01)	-	(0.15)	(0.01)	-
Diluted (\$)	0.07	(0.01)	-	(0.14)	(0.01)	-

Net income for the three month period ended September 30, 2008 was \$1,149,936 or \$0.08 per share compared to a loss of \$(167,593) or \$(0.01) per share, for the same period in 2007. Almost all financial indicators improved during the three months ended September 30, 2008 when compared with the third quarter of 2007 resulting in a significant increase in income before income taxes period over period. For the nine months ended September 30, 2008 the net loss was \$2,140,583 or \$0.15 per share, compared to the net loss of \$242,307 or \$0.02 per share for the same period of 2007. Net loss for the nine months of 2008 includes provision for impairment of certain international assets of \$5,089,843 and severance of \$1.2 million taken by former executives of the Company who had immediately prior to the AGM, considered themselves entitled to a change of control payment under their respective employment contracts and prior to the new board having been elected.

Petroleum and natural gas sales

Sales volumes		Three months ended			Nine Months ended		
		September 30			September 30		
		2008	2007	Change	2008	2007	Change
			%			%	
Natural gas	<i>mcf/d</i>	4,628	2,368	95	3,870	2,195	76
Crude Oil	<i>bbl/d</i>	153	273	(44)	174	249	(30)
Natural gas liquids	<i>bbl/d</i>	42	11	282	44	14	214
Combined (6:1)	<i>boe/d</i>	967	678	43	863	629	37

Sales volumes, on a boe basis, averaged 967 boe per day during the third quarter of 2008, up 43% from the 678 boe per day average in the third quarter of 2007, and up by 25% and 13% over the first and second quarters of 2008 respectively. The increase in sales volumes for both liquids and natural gas is primarily the result of the new production coming online from Sylvan Lake and Boundary Lake areas. *The actual production volumes for the month of September was approximately 991 boe/d.*

Natural gas sales volumes increased 95% during the third quarter 2008 as compared to the comparative period in 2007. With the anticipated addition of production from the 2008 capital program, management expects sales volumes for the remainder of 2008 to increase over the average levels experienced during the first nine months of the year. For the first nine months of the year, sales volumes averaged 863 boe/d; an increase of 37% from the 629 boe/d achieved in the comparable period of 2007.

Revenues	Three months ended September 30			Nine Months ended September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Natural gas	3,417,617	1,112,180	207	9,208,001	3,462,429	166
Oil	1,805,289	1,313,658	37	4,766,582	3,472,966	37
Natural gas liquids	340,202	61,704	451	955,550	191,134	400
Total oil and gas	5,563,108	2,487,542	124	14,930,133	7,126,529	110

Gross revenue from the sale of petroleum and natural gas in the third quarter of 2008 totaled \$5,563,108 up by 124% from the same quarter last year, and up 3% and 40% from the second and first quarter of 2008 respectively. Increase in total revenues was a result of increased production volumes from new wells coming on production in Boundary Lake and Sylvan Lake areas and higher product prices year-over-year.

Overall natural gas sales were \$3,417,617 for the three months ended September 30, 2008, 207% higher than the \$1,112,180 received in the third quarter of 2007.

Oil and natural gas liquids revenue rose 56% to \$2,145,491 in the three months ended September 30, 2008 from \$1,375,362 in the same period of 2007.

Revenues for the nine month period ended September 30, 2008, were \$14,930,133, a 110% increase over the \$7,126,529 in the comparable period of 2007.

Average Sales Prices		Three months ended September 30			Nine Months ended September 30		
		2008	2007	Change	2008	2007	Change
				%			%
Natural gas	<i>\$/mcf</i>	8.03	5.10	57	8.68	5.78	50
Oil	<i>\$/bbl</i>	128.18	52.34	145	99.98	51.09	96
Natural gas liquids	<i>\$/bbl</i>	87.34	62.55	40	79.25	53.00	59
Combined (6:1)	<i>\$/boe</i>	62.54	39.87	57	63.14	41.51	52

Benchmark Pricing		Three months ended September 30			Nine Months ended September 30		
		2008	2007	Change	2008	2007	Change
				%			%
AECO natural gas (<i>Cdn\$/mcf</i>)	<i>\$/mcf</i>	7.33	4.88	50.2	8.19	6.20	32.1
WTI crude oil (<i>US\$/bbl</i>)	<i>\$/bbl</i>	118.21	75.38	56.8	113.34	66.10	71.5
Natural gas liquids (<i>Cdn\$/bbl</i>)	<i>\$/bbl</i>	92.79	63.96	45.1	88.78	60.01	47.9
Exchange rate (<i>US\$/Cdn\$</i>)	<i>\$/boe</i>	0.9604	0.9568	.3	0.9822	0.9070	8.3

The overall average price received from sale of oil and gas products in the third quarter of 2008 was up 98%, to \$119.59/boe, from the \$52.64/boe received during the third quarter last year. Oil prices continued to remain strong during the third quarter of 2008, with ISR's oil price averaging 145% higher than the third quarter last year. Market factors contribute to the rise in continuing worldwide high oil prices. Natural gas prices have strengthened in the third quarter of 2008 up 57% to \$8.03 versus the \$5.10 in the comparative period of 2007. The prices however, subsequent to September 30, 2008 have weakened.

Royalties	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Crown royalties	671,229	314,716	113	2,077,111	834,470	149
Freehold	196,825	78,950	149	556,620	205,016	171
Gross overriding	61,758	56,621	17	192,310	109,953	75
Total	929,812	446,288	108	2,826,041	1,149,439	146
As % of oil and gas revenues	16.71	17.94	(6.86)	18.93	16.13	17

Royalties increased significantly in the third quarter of 2008, totaling \$929,812 versus \$446,288 in the same period of 2007. Royalties as a percentage of working interest revenues amounted to 16.71% during the third quarter of 2008, compared to 17.94% during the same quarter last year. The absolute dollar increase in royalties is attributed to the increase in production in the period as a result of additional volumes achieved through new wells brought on in the period from the Company's capital program.

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" (the "NRF") containing the governments proposals for Alberta's new royalty regime, which is scheduled to be effective on January 1, 2009. Given that the NRF has only recently been announced, it is not possible at this time to determine the full impact of the NRF on ISR's future operations. Based on oil and gas properties held at year end, the increased royalties payable to the Alberta government pursuant to its NRF will not materially negatively impact our net cash flow. In addition, we cannot provide any assurance that the NRF will be implemented in the form proposed. If changes are made to the NRF before it is implemented and legislated by the Alberta government, such changes could result in the implementation of a new royalty regime that may impact us in a different manner as than described.

Lease Operating Costs	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Lease operating costs	959,553	642,857	49	2,279,416	2,065,523	10
Per boe (\$)	10.79	10.30	(4.76)	9.64	12.03	(20)

Lease operating costs increased 49% from \$642,857 in the third quarter last year to \$959,553 in the third quarter of 2008. Overall operating costs per unit were slightly higher in the third quarter this year, impacted by the lower operating cost properties in the first nine months of 2008. The new gas properties that came online in 2008 have low operating costs. On a boe basis, lease operating costs increased 4.76% in the three months ended September 30, 2008 to \$10.79 per boe from \$10.30 per boe in the same period of 2007.

For the nine month period ended September 30, 2008 and 2007, lease operating costs increased by 10% from the comparable period of 2007. On a boe basis, lease operating costs decreased 20% from 2007, due to the new low operating cost gas wells.

Transportation	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Transportation	262,809	205,162	28	475,565	450,017	6
Per boe (\$)	2.95	3.29	(10)	2.01	2.62	(23)

Transportation costs for the three months ended September 30, 2008 amounted to \$262,809 with the transportation costs for the comparative period in 2007, amounting to \$205,162. On a boe basis, transportation costs decreased 43% in the three months ended September 30, 2008 to \$2.95 per boe from \$3.29 per boe in the same period of 2007. The increase in absolute amount and per boe amount is a result of the new gas production in 2008.

For the nine months ended September 30, 2008 and 2007, transportation costs were \$475,565 and \$450,017 respectively.

Operating Netback (\$/boe)	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Petroleum and natural gas sales	5,563,108	2,487,542	124	14,930,133	7,126,529	110
Royalties	(929,812)	(446,288)	108	(2,826,041)	(1,149,439)	146
Lease operating costs	(959,553)	(642,857)	49	(2,279,416)	(2,065,523)	10
Transportation	(262,809)	(205,162)	28	(475,565)	(450,017)	6
Operating netback	3,410,934	1,193,235	186	9,349,111	3,461,550	170
Per boe (\$)	38.34	19.13	100	39.54	20.16	96

(1) Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.

Operating netbacks were significantly higher for the three months ended September 30, 2008, when compared to the prior year period, due mainly to the increase in commodity prices. Higher sales revenues were only partially offset by higher royalties and lease operating costs. Operating netbacks were higher for the nine months ended September 30, 2008, compared to the prior year period, due mainly to significant increase in commodity prices. Higher sales revenues were offset by higher royalties and lease operating costs.

General and Administrative ("G&A")	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Management severance	-	-	-	1,224,139	-	-
Proxy solicitation, management and board change	-	-	-	465,380	-	-
Other general and administrative	546,637	941,956	22	2,860,693	3,021,082	108
	546,637	941,956		4,550,212	3,021,082	
G&A Capitalized		(493,535)		(1,252,954)	(1,570,948)	
General and Administrative	546,637	448,421	22	3,297,258	1,450,134	127
Per boe (\$)	6.14	7.19	(15)	13.94	8.44	65

General and administrative expenses increased 22% in the third quarter of this year, to \$546,637 from \$448,421 in the same period last year. The overall increase in G&A expenses in the quarter is related to the expensing G&A relating to international property in Ecuador. In 2007, \$493,535 of G&A expenses were capitalized, hence on a comparative basis the G&A decreased by 42%. On a boe basis, general and administrative expenses were 14% lower during the third quarter this year as production volumes were higher than the third quarter last year.

Management expects that G&A costs on a per unit basis will continue to trend downward as a result of increased production volumes from new wells coming online in the fourth quarter of 2008, and the benefits of ISR's capital program for the remainder of the year. However the trend will be dependent on current pressure on commodity prices.

For the nine months ended September 30, 2008, general and administrative expenses increased significantly by 127% from those of the comparative period last year. Increase in expense was due to change of control payments taken by former executives of the Company who considered themselves to be terminated, amounting to approximately \$1.2 million, proxy vote expense, and expensing G&A costs relating to Ecuador. In the same period 2007, approximately \$1.5 million of G&A expenses were capitalized, compared to approximately \$1.3 million in 2008.

Stock Based Compensation and Other Stock Based Compensation

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended September 30, 2008 was \$65,241, as compared to stock-based compensation expense of \$47,328 in the comparative period of 2007. The increase in stock-based compensation expense is due to the options granted in third quarter 2008. For the nine months ended September 30, 2008 and 2007, stock-based compensation expense was \$159,897 and \$120,765 respectively.

Depletion, Depreciation and Accretion	Three months ended September 30			Nine Months ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Depletion	1,038,835	723,973	39	3,058,981	2,110,370	45
Impairment of international assets	-	-		5,089,843	-	
Depreciation	3,965	3,661	8	6,863	11,100	(38)
Accretion of asset retirement obligations	355,063	19,245		394,783	56,773	595
Total	1,362,863	746,879	83	8,550,470	2,178,243	293
Per boe (\$)	15.32	11.97	28	36.16	12.69	185

Depletion, depreciation and accretion expense increased 83% in the third quarter of 2008 to \$1,362,863 from \$746,879 in the same period of 2007. This increase in absolute dollar amount is a result of the increased production from the new gas wells in Bear Canyon and Sylvan Lake areas. On a boe basis depletion, depreciation and accretion expense increased by 28% to \$15.32/boe compared to \$11.97/boe in the same period of 2007.

Depletion, depreciation and accretion expense increased 293% in the nine months ended September 30, 2008 to \$8,550,470 from \$2,178,243 in the same period of 2007. This increase in absolute dollar amount is a result of the increased production from the new gas wells in Bear Canyon and Sylvan Lake areas and the provision against the value of an international cost centre after the Company had 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 the Company has made a provision on its petroleum and natural gas property in Ecuador. On a boe basis depletion, depreciation and accretion expense increased by 185% to \$36.16/boe compared to \$12.69/boe in the same period of 2007. However before the impairment of international assets, the depletion, depreciation and accretion expense would have increased by 15.4% to \$14.64/boe.

Income Taxes

The future income tax provision for the three months ended September 30 was a expense of \$267,461, compared to \$852 in the comparative period of 2007. The future income tax provision for the nine months ended September 30 was a recovery of \$578,604, compared to a recovery of \$125,171 in the comparative period of 2007.

Income taxes are comprised of two components: current and future income taxes. The expected 2008 income tax rate as a percentage of pre-tax income is 29.5%.

Capital Expenditures

During the quarter ended September 30, 2008, \$1,930,247 (2007 - \$1,289,641), and for the nine months ended September 30, 2008 \$5,050,457 (2007 - \$3,456,540) was expended on capital additions as summarized below:

Capital Expenditures	Three months ended			Nine Months ended		
	September 30			September 30		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
Land and acquisitions	294,186	4,264	735	395,659	422,428	(7)
Geological and geophysical	71,687	-	-	103,958	81,761	27
Drilling and completion	632,753	799,614	(21)	2,055,943	1,120,777	83
Facilities and equipment	144,838	92,932	56	464,071	413,430	12
Furniture, fittings and fixtures	2,942	-	-	11,385	2,854	-
Capitalized G&A	-	493,535	-	1,252,954	1,570,948	(20)
Total capital expenditures	1,146,406	1,390,345	(18)	4,283,970	3,612,198	18

The increase in capital expenditures in the three months ended September 30, 2008 was the result of the execution of the 2008 capital program, mostly consisting of land purchases along with the drilling and completion of the Berwyn 7-11 gas well. Additional capital expenditures related to the equipping and tie-in portion of the successful wells and costs associated with the equipping and tie-in's of wells previously drilled were also incurred in the quarter. For the nine months ended September 30, 2008, ISR has drilled 5 gross gas wells (2.38 net), which included 1.98 (net) gas wells and 0.4 (net) D&A wells for a 83% success rate. In the third quarter the Company did not have any capitalized G&A expenses.

In the third quarter, the Company accepted an offer to sell its Marwayne heavy oil assets for cash consideration of \$1,600,000. The closing is scheduled for November 29, 2008 and is subject to customary due diligence and regulatory consents.

Liquidity and Capital Resources

At September 30, 2008 the Company's market value of common shares was \$16,739,927 based on the closing price of \$1.04 per share on the 16,096,084 shares outstanding. This compares to a market value of \$11,003,186 at the end of September 30, 2007 based on the closing price of \$0.79 per share and 13,928,084 shares outstanding. Funds from operations for three month period were \$2,845,501 up 353% from \$627,466 at the end of the corresponding period of 2007. The funds from operations on a per share basis increased from \$0.05 per basic weighted average share in 2007 to \$0.20 per basic weighted average share in 2008. This increase is attributable to increased production and control of expenses in 2008 from the corresponding period in 2007. Funds from operations details are provided to assist investors in determining the ability of the Company to generate cash from operations. Funds from operations are 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.

The oil and gas business is inherently risky and capital intensive and can require significant capital and cash resources to expand by growing reserves, production and cash flow. Given the nature of the oil and gas business, and the size of ISR, it must be able to continue to access capital markets to raise additional monies to grow.

ISR has budgeted approximately \$2 million in capital expenditures for balance of 2008 and expects to rely on internally generated cash flows and available lines of credit to fund its capital program.

On September 19, 2008, the Company closed a private placement. The Company issued 2,168,000 Units, at \$1.25 per unit for net proceeds of \$2,363,000. Each Unit consists of one Class A common share and one half of one transferable Class A common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one Class A common share for a period of 12 months following the closing date at a price of \$1.50 and at \$2.00 per share in the subsequent 12 months. If, over a period of 20 consecutive trading days, the Company's stock price four months after closing of the Offering and before the warrant expiry date exceeds the warrant exercise price by 30% on a daily closing volume weighted average basis, the Company may, within 30 days of such occurrence, give written notice to the holders that the warrant will expire on the 30th day following the date of such notice unless exercised by the holders.

Contractual Obligations

As part of normal operations, the Company is 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. Senior executive officers are each party to a separate employment services agreement with the Company. 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 September 30, 2008 that would result in a material misstatement of the Company's financial reporting, ISR continues to evaluate its processes and internal controls on an ongoing basis. There were changes in internal control over financial reporting during 2008.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity prices, interest rates, exchange fluctuations, as well as environmental concerns and the success of future drilling. ISR attempts to reduce and manage those risks that 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 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 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.

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 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 the Company’s consolidated financial statements for three and nine months ended September 30, 2008, Note 13.

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 costs 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 and 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. The Company’s Reserves Committee of the Board of Directors 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 effects of changes in tax laws, and tax rates are recognized when enacted. For the three month period ended September 30, 2008 this future income tax expense was calculated to be \$267,461 compared to a charge of \$852 at the end of the corresponding period in 2007, and for the nine month period a recovery of \$578,604 compared to \$125,171.

Reserves Disclosure:

The process of estimating reserves is critical to several accounting estimates. It required significant judgments based on available geological, geophysical, engineering and economic data. 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 that does 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, proved plus 50% of probable reserves, which is similar but not identical to the January 1, 2004 definition of proved plus probable reserves.

Outlook

The Company’s management has been immersed in the review of the assets of the Company and appraising the opportunities to enhance the financial performance from those assets. The volatility of the oil and gas markets affects all producers and the higher prices have benefited the Company. However the current decline in energy prices will impact the Company’s performance in the fourth quarter. 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.

Natural gas prices declined significantly in the third quarter of 2008 from the highs reached at the end of the second quarter. While partially influenced by the strength of crude oil price changes, natural gas price changes are predominantly based on supply and demand fundamentals in the North American market. The continuing increase in crude oil prices through the end of the second quarter had a positive effect on the rise in natural gas prices, reaching a high of \$11.77 per mcf for AECO near the end of the second quarter. In the third quarter, the collapse of all commodity prices began on the heels of financial and economic turmoil in the credit and capital markets. During the third quarter, the AECO average daily spot price declined from \$11.83 per mcf early in the quarter to \$5.79 per mcf at the end of the third quarter.

Crude oil prices experienced a significant drop from the peak in mid July for West Texas Intermediate (WTI) of more than U.S. \$145.00 per barrel to a range of between U.S. \$60.00 to \$70.00 per barrel in late October. For the three months ended September 30, 2008, WTI averaged \$118.21 per barrel.

The Company will continue to review its capital expenditure program in light of current economic climate.

Domestic

The Boundary Lake area, located within the Peace River Arch, proved to be a successful venture for the Company. The Company has brought a total of 4 wells online, 3 of which came online during the first nine months of 2008, totaling approximately 400 BOED net to the Company.

At Berwyn, Alberta, the Company recently drilled the Berwyn 7-11 well, which the Company feels is capable of 1.5MMCFD (250 BOED). The well came online during late October at a rate of 0.750MMCFD (125 BOED); once the plant area operator is pleased with how it’s gathering system is responding, the Company expects the well to flow to its full capacity. The Berwyn area continues to be a major focal point of the Company, and it will continue to develop the field.

International

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

Pakistan

The Company signed two farm-in agreements with Mari Gas Company (MGCL) of Pakistan the second largest producer of gas in Pakistan. The Company’s direct working interest in each block is fifteen percent (15%) with all the work and management performed by a local seasoned and well established gas producer. The farm-in agreement provides that the Company be responsible for 25% of the development costs of the first three wells in the Sukkur field. Pakistan Government approval for development of the Sukkur Block has been obtained and approval of the Sujawal Block is pending. The initial strike recently reported on will be followed up by further development in the Sukkur field, while development is commencing shortly in the Sujawal field.

Sukkur Block

The Sukkur Joint Venture (SJV) is comprised of Mari Gas Company Limited, 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.

Drilling, completion, and stimulation of the Koonj Well #1A in the Sukkur Exploration Block, in which the Company has a 15% working interest ("WI"), proved to be a success. The well was tested at gross rates of 15MMCFD and is expected to have commercial sales in the first half of 2009.

The Company has plans to participate in 2 additional exploration drills (15% WI) within the Sukkur block which should commence near the end of 2008. This 2,416.43 sq. km. block is also situated in Sindh Province (100 kms from Karachi), Southern Pakistan. The 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. Mari Gas 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 commence.

Ecuador

Management recently met with Petro Ecuador officials with a view to determine if it fits the Company's risk profile. The Charapa Concession is currently being analyzed in detail and a work plan has been 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. All environmental permits have been received.

Quarterly Financial Summary

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Petroleum and natural gas sales	5,563,108	5,389,527	3,977,498	2,507,172	2,487,542	2,121,375	2,517,612	2,054,232
Royalties	(929,812)	(1,074,952)	(821,277)	(532,693)	(446,288)	(439,153)	(263,998)	(126,889)
Operating expenses	(1,222,362)	(758,516)	(774,103)	(798,684)	(848,018)	(954,268)	(713,254)	(525,732)
Operating netback (per boe)	38	46	34	20	19	17	24	36
Funds from operations	2,845,501	1,234,168	1,911,511	716,908	627,466	244,154	1,059,910	1,084,160
Per share – basic	0.20	0.09	0.14	0.05	0.05	0.02	0.08	0.08
Per share – diluted	0.18	0.09	0.14	0.05	0.05	0.02	0.08	0.08
Net income (loss)								
Per share – basic	0.08	(0.27)	0.04	(0.01)	(0.01)	(0.01)	0.01	(0.07)
Per share – diluted	0.07	(0.27)	0.04	(0.01)	(0.01)	(0.01)	0.01	(0.07)
Capital expenditures	1,146,406	1,099,304	2,038,260	1,675,893	1,390,345	1,329,350	892,502	6,382,014

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 measures under Canadian generally accepted accounting principles and accordingly may not be comparable to measure used by other companies.