



International Sovereign Energy Corp

Annual Information Form
For the Year Ended December 31, 2009

March 24, 2010

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GLOSSARY OF TECHNICAL TERMS

ARTC	Alberta Royal Tax Credit
bbbl	Barrel
bbls/d	barrels per day
bcf	billions of cubic feet
BOE	barrel of oil equivalent (1bbl = 6 Mcf)
bopd	barrels of oil per day
BTU	British Thermal Unit
Mbbls	thousand barrels of oil
MBOE	thousand barrels of oil equivalent
Mcf	thousands of cubic feet
MMcf	millions of cubic feet
NGLs	natural gas liquids
WTI	West Texas Intermediate, the North American crude oil pricing, Benchmark

Unless otherwise indicated, references herein to “\$” or “dollars” are to Canadian dollars. All financial information with respect to the Company has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada.

Boe or mcf may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements. These statements relate to future events or future performance of International Sovereign Energy Corp.(also referred to as the “Corporation” or “ISR” or the “Company”). When used in this Annual Information Form, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “seek”, “propose”, “expect”, “potential”, “continue”, and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Corporation’s current views with respect to certain events, and are subject to certain risks, performance, or achievements to vary from those described in this Annual Information Form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this Annual Information Form as intended, planned, anticipated, believed, estimated, or expected. Specific forward-looking statements in this Annual Information Form include, among others, statements pertaining to the following;

- *factors upon which the Corporation will decide whether or not to undertake a specific course of action;*
- *world-wide supply and demand for petroleum products;*
- *expectations regarding the Corporation’s ability to raise capital;*
- *treatment under governmental regulatory regimes;*
- *commodity prices.*

With respect to forward-looking statements in this Annual Information Form, the Corporation has made assumptions, regarding, among other things:

- *the impact of increasing competition;*
- *the Corporation’s ability to obtain additional financing on satisfactory terms; and*
- *the Corporation’s ability to attract and retain qualified personnel.*

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- *general economic conditions;*
- *volatility in global market prices for oil and natural gas;*
- *competition;*
- *liabilities and risks, including environmental liability and risks inherent in oil and gas operations;*
- *the availability of capital;*
- *alternatives to and changing demand for petroleum products;*
- *changes in legislation and the regulatory environment; and*
- *other factors considered under “Risk Factors” herein.*

Furthermore, statements relating to “reserves” or “resources” are deemed to be forward-looking Statements, prepared by an independent evaluator, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitable in the future.

The forward-looking statements contained in this Annual Information Form are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this Annual Information Form. The Corporation does not intend and does not assume any obligation, to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

NON-GAAP MEASURES

The Corporation discloses several financial measures in this Annual Information Form that do not have any standardized meaning prescribed under Generally Accepted Accounting Principles in Canada ("GAAP"). These financial measures include funds from operations and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation's principal business activities prior to the consideration of how those activities are financed or how the results are taxed. Investors should be cautioned that these measures should not be construed as an alternative to net income, cash provided by operating activities or other measures of financial performance as determined in accordance with GAAP. The Corporation's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies.

CORPORATE STRUCTURE

Name, Address and Incorporation

International Sovereign Energy Corp.

Executive and Operating Office: 1750, 801-6th Avenue SW, Calgary, AB T2P 3W2

Registered Office: 1750, 801-6th Avenue SW, Calgary, AB T2P 3W2

International Sovereign Energy Corp. was incorporated on August 12, 1992 (as 539304 Alberta Ltd., with a name change to Constellation Oil & Gas Ltd. (“Constellation”), on June 29, 1993) under the *Business Corporations Act* (Alberta). On May 31, 1996, the shareholders of Constellation approved the purchase of Cheyenne Oil & Gas Corporation (“Cheyenne”), a private company, through an exchange of shares and debentures and Cheyenne and Constellation were amalgamated on February 13, 1997. By June of 1996 the Company had 15,749,565 Class A common shares outstanding. During this time, Constellation Oil and Gas Limited was listed on and became a junior capital pool corporation on the Alberta Stock Exchange under the symbol “CSK.A”. In 1998 the Company was successful in a takeover of Monterey Energy Corp. (“Monterey”) via a share exchange of 1.1 Constellation Oil & Gas Ltd. shares for each share of Monterey. This offer closed on August 24, 1998, with approximately 98% of the Monterey shares issued and outstanding being tendered. By year end, the Company subsequently completed the acquisition of 100% of the common shares of Monterey and there were 32,213,565 shares issued and outstanding.

On January 1, 1999, Constellation and Monterey amalgamated. By Articles of Amendment dated April 26, 2000, Constellation Oil & Gas Ltd. changed its name to International Sovereign Energy Corporation and its share capital was amended to consolidate its common shares on a one-for-five basis. By Articles of Amendment dated May 5, 2000, International Sovereign Energy Corporation changed its name to International Sovereign Energy Corp.

On March 1, 2004, the Company graduated to the Toronto Stock Exchange. As of March 24, 2010, the Company has 16,096,084 common shares issued and outstanding that are being traded on the TSX under the symbol "ISR".

Inter-corporate Relationships

International Sovereign Energy Corp. SA is incorporated in Ecuador and is a wholly owned subsidiary of the Company. The subsidiary is currently dormant.

In the quarter ending March 31, 2008 the Company completed the acquisition of Bellwether International Inc. ("BII"), the holder and operator of the Charapa Hydrocarbon Concession Contract, Ecuador (the "Charapa Contract"), pursuant to the Memorandum of Agreement between the Company and South American Investments Inc. ("SAI"). The Company acquired all the issued and outstanding shares of BII for \$1. The Company also obtained all rights, title and interest to the US\$2,340,000 BII funds, which funds provide a performance guarantee under the terms and conditions of the Charapa Contract. The guaranteed funds will be progressively released to the Company upon completion of certain qualified expenditures under the Charapa Contract terms and conditions.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

2007

In 2007, the seismic and drilling environmental impact reports with respect to the Charapa concession were filed with the PetroEcuador and accepted by the government.

In Pakistan, the Company signed farm-in agreements on the Sukkur and Sujawal Blocks with Mari Gas Company Limited (MGCL) of Pakistan the second largest producer of gas in Pakistan. The Company's direct working interest in each Block is fifteen percent (15%) for which farm-in agreements have received approval from the Government of Pakistan, subject to the required bonding and funding. In 2008 the Company posted performance bonds for the Sukkar Block in the amount of US\$414,000 and in the amount of US\$450,000 for the Sujawal Block.

Sukkur: This Block covers an area of 2,435.40 sq. km and is located in Sindh Province. The farm-in terms require the Company to:

- (1) Pay its proportionate share of all past costs and all forward costs.
- (2) Carry MGCL for an additional 10% of 100% (i.e. 25%) of the costs on the first three wells

(3) Post a bond for 50% of the Company's work commitments (which has been posted).

Sujawal: This 2,416.43 Sq. Km Block is also situated in Sindh Province, 100 kms from Karachi, Southern Pakistan. The Badin area contributes more than 50% of Pakistan's hydrocarbon production. The farm-in terms require the Company:

- (1) Pay its proportionate share of all MGCL costs (15%)
- (2) Pay its proportionate share of all forward costs (15%)
- (3) Post a bond for 50% of the Company's work commitments (which has been posted in 2008). MGCL has reprocessed 500 line km of vintage seismic and identified from this data an initial Lower Goru Sands prospect in the eastern section of the Block. Additional 2-D and 3-D seismic is in the process of being acquired followed by the interpretation and mapping of this data.

In Colombia, the Company has signed a number of confidentiality agreements on various hydrocarbon blocks and technical evaluations are in progress.

The Company's total capital expenditures for the fiscal 2007 were \$5,218,398 compared to \$17,053,598 in the 2006 period. This decrease in 2007 was due to being more selective on drilling opportunities available. At year-end 2007, the independent engineers report indicated that proved reserves increased to 1.56 million barrels of oil equivalent, up 12%; proved-plus-probable reserves increased to 4.34 million barrels of oil equivalent, up 16% all on a year-over-year basis. The net present value discounted at 10% (before tax) increased from \$56.06 million in 2006 to \$62.80 million in 2007.

2008

In 2008, the Company's total capital expenditures for the fiscal 2008 were \$4,215,731 compared to \$5,218,398 in 2007 period. This expenditure in 2008 was largely the result of capital expenditures in Pakistan in the fourth quarter.

In the first quarter ending March 31, 2008, the Company completed the acquisition of Bellwether International Inc. ("BII"), the holder and operator of the Charapa Hydrocarbon Concession Contract, Ecuador (the "Charapa Contract"), pursuant to the Memorandum of Agreement between the Company and South American Investment Inc. The Company acquired all the issued and outstanding shares of BII for \$1. The Company also obtained all rights, title and interest to the US\$2,340,000 BII funds, which funds provide a performance guarantee under the terms and conditions of the Charapa Contract. The guaranteed funds will be progressively released to the Company upon completion of certain qualified expenditures under the Charapa Contract terms and conditions. The Company also acquired the amount receivable by SAI from BII.

At the Company's Annual General Meeting on June 27, 2008, a new Board of Directors was elected by the shareholders, and a new senior management team installed.

During the year ended December 31, 2008 the Company established a revolving line of credit to a maximum of \$10,000,000 (December 31, 2007- \$6,000,000). The facility is subject to annual

review. The operating loan bears interest at prime plus 1% and is secured by a demand debenture for a maximum of \$25,000,000 providing a floating charge over all assets of the Company and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business without consent of the financial institution and to provide security under section 426 of the Bank Act and/or assign natural gas contracts. In addition the financial institution has issued on behalf of the Company letter of credit for \$7,500 (2007- \$7,500) to maintain its status as a licensed well operator in the province of British Columbia. There is no bank debt as at December 31, 2008.

On September 19, 2008 the Company issued 2,168,000 units for gross proceeds of \$2,650,000 by way of private placement. 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 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.

Issuance costs of \$385,850 have been netted against the proceeds. Included in the share issuance costs are the warrants valuation cost of \$110,914, representing the value of 212,000 warrants granted to agent, each warrant being exercisable into one Class A common share at \$1.25 within 24 months of closing.

2009

The Company's total capital expenditures for the fiscal 2009 were \$4,604,041 compared to \$4,215,731 in 2008 period.

At year-end 2009, the independent engineers report indicated that proved reserves decreased to 0.92 million barrels of oil equivalent, down 40.5% (25.6% for domestic); proved-plus-probable reserves decreased to 1.78 million barrels of oil equivalent, down 33.1% (23.4% for domestic) all on a year-over-year basis. The net present value discounted at 10% (before tax) decreased from \$46.5 million in 2008 to \$26.9 million in 2009. The reason was the decrease is due to drop in natural prices, no material addition to reserves, and Pakistan reserves not included in 2009 (2008-\$4.4 million).

On May 27, 2009 the Company was informed by Mari Gas Company Limited ("MGCL"), the operator of the Sukkur Block with a 50% working interest ("WI"), and Sujawal Block with a 85% WI, that the Company was in default of non-payment of cash calls of its 15% WI in these Blocks if payment of all outstanding cash calls of approximately US\$1.9 million were not paid within 7 days. Under the Joint Operating Agreement ("JOA"), the Company has the right to remedy the default during a period of 60 days by making payment of all its share of the cash calls with interest at 3% over LIBOR or forfeit its WI. In the event of forfeiture, the Company will not be entitled to receive any consideration for such forfeited WI.

The Company had taken a provision of \$2.8 million in 2008 against international expenditures in Pakistan. The Company has provided for the capital expenditures and the cash calls relating to these Blocks. In addition the Company had posted performance bonds of \$334,703 (PKR 25,966,080 or US\$310,588) and \$482,490 (US\$450,000), which have been fully provided for in the third quarter. In the third quarter of 2009, the Company made an additional provision for \$776,300 (US\$725,000) for farm in costs claimed by MGCL.

Management is of the view that capital is better spent on its domestic drilling program. The Company has thus elected not to remedy the default, but to seek out parties that would take over its obligations. Although the Koonj well, in the Sukkur Block, drilled in July 2008 has proven reserves, the operator has yet to start production despite assurances made in November 2008. The Company is not confident that the production will commence in a timely manner, and is concerned that the initial reserve estimates subsequent to drilling have been downgraded substantially.

On August 1, 2009 the Company was granted a temporary injunction until August 8, 2009 that stays MGCL and Petroleum Exploration (Pvt) Limited (“PEL”) from forfeiture of the Company’s WI in the Sukkur Block.

On September 2, 2009 the Company filed application for contempt of court and the court issued initial contempt notices to the Company’s working interest partners in the Sukkur Block, who have ignored the injunction and have tried to forfeit the Company’s working interest. The notices were successfully issued on September 4, 2009 with a hearing date set for September 9, 2009, which has now been adjourned to October 31, 2009 adjourned again to November 5, 2009 and further adjourned to November 14, 2009.

On October 3, 2009 the Company was granted a temporary injunction until October 5, 2009, subsequently adjourned to October 31, 2009, that stays MGCL from seeking forfeiture of the Company’s WI in the Sujawal Block. The date fixed for arguments on the injunction application for Sukkur Block and for written statement of MGCL in Sujawal Block was November 5, 2009 and adjourned to November 14, 2009.

The date for hearing arguments was adjourned numerous times and currently the date of hearing is set to April 3, 2010.

On September 29, 2009 the Company received a deposit of US\$100,000 in escrow thereby accepting a non-binding letter of intent to sell its interest in the Charapa Marginal Oil Field (“Charapa”) in Ecuador. Subject to due diligence and negotiation of a definitive agreement, the consideration for the purchase of Charapa includes US\$3.0 million and replacement of the Company’s performance guarantee of \$2.51 million (US\$2.34 million) to Petroecuador. The Company has granted an extension to April 30, 2010 to the potential purchaser of its interest in Charapa to complete its due diligence, approval by Petroecuador for the work plan and then move to a definitive agreement.

In the fourth quarter, the Company entered into a letter of intent with a private Alberta based oil and natural gas exploration company Palliser Oil and Gas Corporation, pursuant to which the two parties would have agreed to complete a plan of arrangement resulting in the combination of the two companies, however on December 16, 2009 the contemplated transaction was terminated.

DESCRIPTION OF THE BUSINESS

General

International Sovereign Energy Corp. is a Canadian based exploration and development company with its head office in Calgary and representation in Pakistan and Ecuador. The Company is active in the exploration and development of hydrocarbon reserves in Western Canada and internationally. The business of ISR has been the acquisition of interests in petroleum and natural gas and the exploration, development and production of petroleum and natural gas, primarily in Western Canada. ISR owns and operates a strong asset base of producing oil and gas properties in Western Canada that it continues to maintain through the drilling of internally generated low to medium risk exploration and development opportunities. This conservative, decreased risk approach to growth in Western Canada has provided the Company with a substantial asset base from which to identify and pursue late stage exploration or early stage development opportunities internationally.

Principal properties include; Berwyn, Leaman, Little Bow, Marwayne, Medicine River, Red Earth, Swan Hills, Wildmere, Boundary Lake in Alberta, Clarke Lake, Fort St. John, and Inga in British Columbia.

The Company presently employs 4 employees and a number of highly qualified consultants. The Company sells most of its oil production in the local markets in Canada. The Company's common shares (the "Common Shares") are listed for trading on the Toronto Stock Exchange under the symbol "ISR".

The Company established a revolving line of credit to a maximum of \$10,000,000 in 2008. The facility is subject to annual review. The next review is scheduled for May 1, 2010. The operating loan bears interest at prime plus 1% and is secured by a demand debenture for a maximum of \$25,000,000 providing a floating charge over all assets of the Company and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business without consent of the financial institution and to provide security under section 426 of the Bank Act and/or assign natural gas contracts. The Company's bank debt at December 31, 2009 was \$3,308,846.

Risk Factors

Exploration, Development and Production

Oil and gas operations involve many risks which even with a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Company may have at any particular time and the production therefrom will decline over time as such reserves are exploited. A future increase in the Company's reserves will depend not only upon the ability to explore and develop any properties it may have, but also on its ability to select and acquire suitable producing properties. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or to participate in other ventures or be able to identify and reach agreement with suitable partners. Future oil and gas exploration may involve

unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues, to return a profit after drilling, operating and other costs.

Oil Companies face additional risks. Oil and gas operations are subject to risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Prices of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years, reaching historic highs in 2008, and declining significantly by the end of 2009.

The Company's portfolio consists primarily of natural gas, and as such is sensitive to regional supply/demand imbalances, regional industrial activity levels, weather patterns and access to cheaper sources of energy.

Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil and natural gas prices, leading to a reduction in the volume of ISR oil and gas reserves. The lower prices at December 31, 2009 and projected lower gas prices have resulted in the Company having lower reserves.

Uncertainty of Reserve Information

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived from exploration and production activities, including many factors that are beyond the control of the Company. The reserve and cash flow information set forth in this Annual Information Form represent estimates only. The reserves and estimated future net cash flow from the Company's properties have been independently evaluated effective December 31, 2009 by Paddock Lindstrom & Associates Ltd., a firm which was appointed in 2009. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived there from will vary from these evaluations, and such variations could be material. The evaluations are based in part on the assumed success of activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived there from contained in such evaluations will be reduced to the extent that such activities do not achieve the level of success assumed in the evaluations.

Risks Relating to Potential Overseas Operations

The Company is not looking to expand its international exposure in Pakistan and Ecuador.

Pakistan

On May 27, 2009, the Company was informed by MGCL that the Company was in default of non-payment of cash calls of its 15% WI the Sukkur and Sujawal blocks, if payment of all outstanding cash calls of approximately US\$1.2 million was not paid within seven days. Under the Joint Operating Agreement (“JOA”), the Company has the right to remedy the default during a period of 60 days by making payment of all its share of the cash calls with interest at three percent over LIBOR or forfeit its WI. In the event of forfeiture, the Company will not be entitled to receive any consideration for such forfeited working interest.

The Company had taken a provision of \$2.8 million in 2008 against international expenditures in Pakistan. The Company has provided for the capital expenditures and the cash calls relating to these blocks. In addition, the Company had posted performance bonds of \$334,703 (PKR25,966,080) and \$482,490 (US\$450,000), and a potential liability of \$776,300 (US\$725,000), all of which have been provided for in the financial statements for the year ended December 31, 2009.

Management is of the view that capital is presently better spent on its domestic drilling program that has substantially shorter payback periods. The Company has thus elected not to remedy the default, but to seek out parties that would take over its obligations. On August 1, 2009, the Company was granted a temporary injunction until August 8, 2009, that stays MGCL and Petroleum Exploration (Pvt) Limited (“PEL”) from forfeiture of the Company’s WI in the Sukkur block.

On September 2, 2009, the Company filed application for contempt of court and the court issued initial contempt notices to the Company’s working interest partners in the Sukkur Block, who have ignored the injunction and have tried to forfeit the Company’s working interest. The notices were successfully issued on September 4, 2009 with a hearing date set, however due to subsequent adjournments the case is yet to be heard.

On October 3, 2009, the Company was granted a temporary injunction that stays MGCL from seeking forfeiture of the Company’s WI in the Sujawal Block until October 5, 2009, and due to subsequent adjournments the arguments on the injunction application for the Sukkur Block and for written statement of MGCL in the Sujawal Block have yet to be heard. As at the date of this MD&A, the date fixed for the hearing is April 3, 2010.

Ecuador

Management continues to review this investment with a view to determine if it fits the Company’s risk profile. The Charapa Concession (“Charapa”) 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 inherent risks with, what is in effect, an under developed property. All environmental permits have been received. The Company continue to examine whether or not continuation of this investments financially viable given that its banking covenants only allow cash flow from domestic operations to fund international operations.

On September 9, 2009, the Company received a deposit of US\$100,000 in escrow thereby accepting a non-binding letter of intent to sell its interest in the Charapa Marginal Oil Field in Ecuador. Subject to due diligence and negotiation of a definitive agreement, the consideration for the purchase of Charapa includes US\$3.0 million and replacement of the Company's performance guarantee of US\$2.34 million to Petroecuador.

The Company is in the process of having the work plan approved by Petroecuador. Subsequent to obtaining the approval, the Company will be in a position to proceed to conclude the transaction and move to a definitive agreement. In the meantime, the Company has granted an extension to the potential purchaser of its interest in Charapa.

The Company may be further subject to additional risks beyond the risks inherent in the Canadian oil and gas industry. While the Company will attempt to reduce many of these risks through agreements with relevant governments and authorities, no assurance can be given that such risks will be mitigated. These risks can involve matters arising out of the evolving laws and policies of the respective countries in which the operations will be carried out. Risks may also arise from the imposition of taxes or special charges, oil export or pipeline restrictions, foreign exchange fluctuation and currency controls, the unenforceability of contractual rights, restrictions on the use of expatriates in the operations and other such matters. Operations may also be subject to risks due to harsh climates, difficult topography and the potential for social, economic, legal and financial instability.

Competition

The Company competes for reserve acquisitions, exploration leases, licenses, concessions and skilled industry personnel with a large number of other oil and gas companies, many of which have greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies, individual producers and operators.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established there under to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. In 2007 a meeting held in Bali to gain

agreement of countries which were not signatories to the Kyoto Protocol, such as USA, India and China. This meeting did not achieve a wider agreement on limiting the greenhouse gases and setting new limits for emissions which expire in 2012. This may result in increased capital expenditures for the Company.

The Federal Government of Canada has announced certain regulations in respect of greenhouse gases and other pollutants. Although uncertain, these regulations may adversely affect our operations and increase our costs. These regulations may become more onerous over time as public and political pressures increase to implement initiatives that will effectively arrest the emission of greenhouse gases.

Governmental Regulation and Royalties

The oil and natural gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to prices, taxes, royalties and the exportation of oil and natural gas. Such regulation may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse impact on International Sovereign.

On October 25, 2007, the Government of Alberta unveiled a new framework to calculate the royalties payable to it for conventional oil, natural gas and bitumen that are based on, among other things, price, production and depth of wells. This framework has a proposed effective date of January 1, 2009. However many material details of the revised royalty structure have yet to be finalized or announced.

On November 19, 2008, responding to the current global economic crisis and severe downturn in drilling operations throughout the province, the Government of Alberta provided companies drilling new wells after January 1, 2009 with the incentive of a one-time option of selecting new transitional royalty rates. All wells drilled between 2009 and 2013 that adopt the transitional rates will be required to shift to the New Royalty Framework on January 1, 2014. All current wells and all oil sands projects will move to the New Royalty Framework on January 1, 2009 as originally scheduled.

The Alberta Government added additional drilling incentives on March 3, 2009 in attempts to encourage drilling activity within the province. The incentives offered include a drilling royalty credit that will offer \$200 per meter from newly drilled conventional wells. This is aimed at giving maximum benefits to junior oil and gas companies. Also included is a new well incentive program that provides a maximum 5% royalty rate for all newly drilled conventional wells that come online between April 1, 2009 and March 31, 2010.

Changes in the royalty announced. New announcement

The implementation of the proposed changes to the royalty regime in the Province of Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime require,

among other things, new legislation, changes to existing legislation and regulation and the development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. The Government's New Royalty Regime that was implemented January 1, 2009, has recently been reviewed and a more favorable royalty scheme should be realized starting January 1, 2011. There may be further modifications introduced to the proposed royalty structure prior to the implementation hereof and such changes may be adverse to the business of the Corporation. There can be no assurance that the Government of Alberta nor the Government of Canada will not adopt new royalty regimes, which may render the Corporation's projects uneconomic or otherwise adversely affect the business of the Corporation. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse impact on its financial results.

Key Personnel

The success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that if any key personnel should leave the Company, there may be difficulty in immediately finding a person of comparable experience as a replacement.

Convergence with International Reporting Standards

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by ISR for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. Throughout 2009 the Company has assessed the impact of adopting IFRS and is continuing to implement plans for transition. The project is being managed by outside independent accounting professionals. The Company's auditors will be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

Management has not yet finalized its accounting policies and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to ISR's adoption of IFRS, Management's plan is subject to change based on new facts and circumstances that arise after the date of the MD&A.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. ISR currently anticipates that it will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow ISR to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows ISR an exemption on IFRS 2, “Share-based Payments” to equity instrument which vested before ISR’s transition date to IFRS.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, ISR has identified key differences that will impact the financial statements as follows:

Exploration and Evaluation (“E&E”) expenditures – On transition IFRS, ISR will re-classify all E&E expenditures that are currently included in the PP&E balance on the Consolidated Balance Sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.

Depletion expense – On transition to IFRS, the Company has the option to base the depletion calculation using either proved reserves or proved and probable reserves. ISR has not concluded at this time which method it will use.

Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E as opposed to the entire PP&E balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.

Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provision, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

In regards to internal controls over financial reporting (“ICOFR”), ISR will be determining which additional changes to ICOFR will be required to deal with the changes in accounting policies. This will be ongoing through 2010 to ensure all changes in accounting policies include appropriate additional controls and procedures for future IFRS reporting requirements.

In regards to disclosure controls and procedures, ISR will be assessing stakeholders’ information requirements and ensure that appropriate and timely information is provided once available

The Company is currently testing updates to its systems in regards to IFRS, which primarily involved updates to its accounting system. The modifications were not significant, however, they will allow the Company to report both Canadian GAAP and IFRS statements and track E7E costs, transfers from E&E to PP&E and allocation of PP&E into cash generating units.

The Company will have an opening January 1, 2010 balance sheet, which is in accordance with IFRS. The Company will maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

Reserves and Other Oil and Gas Property Information

See Appendix A, Form 51-101F1, Statement of Reserves Data and Other Oil and Gas Information for the narrative on the Corporation's operations and oil and natural gas reserves. The Corporation's report in the form of Form 51-101F2 Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor and report in the form of Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure are included in this Annual Information Form.

Industry Conditions and Trends

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of ISR in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and ISR is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing – Natural Gas

Canadian natural gas prices are influenced by local and North American market supply and demand fundamentals. Natural gas prices remain volatile due to adjustments in both the supply and demand fundamentals as the market adapts to lower natural gas prices. In Canada, the price of natural gas sold in inter-provincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the National Energy Board and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the National Energy Board and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (30,000 m³/day), must be made pursuant to a National Energy Board order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the National Energy Board and the issue of such a license requires the approval of the Governor in Council. The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas, which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

Pricing and Marketing – Oil

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the balance between supply and demand. Crude oil prices are significantly influenced by the decisions of the Organization of Petroleum Exporting Countries ("OPEC") pertaining to managing their production quotas to maintain world crude oil prices within a targeted range. World economic conditions can also impact the demand for crude oil, thereby reducing oil price stability. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board. Any oil export to be made pursuant to a contract of longer duration

(to a maximum of 25 years) requires an exporter to obtain an export license from the National Energy Board and the issue of such a licence requires the approval of the Governor in Council.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial and federal legislation. Provincial environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties or clean-up orders.

Environmental legislation in the Province of Alberta has been consolidated into the Alberta Environmental Protection and Enhancement Act, which imposes stricter environmental standards, requires more stringent compliance reporting and monitoring obligations and significantly increases the penalties that can be imposed.

The Company believes that it is in compliance with the industry accepted environmental standards and regulations.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discover date and the type or quality of the petroleum product produced.

The North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement (“NAFTA”) became effective among the governments of Canada, the United States of America and Mexico. NAFTA carries forward most of the material energy terms that are contained in the Canada-United States Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resource exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period), (ii) impose an export price higher than the domestic price, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements. NAFTA contemplates clearer discipline on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and right to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

The Corporation is authorized to issue:

(a) Class A Common Shares

The Class A Common Shares are unlimited, voting and are entitled to dividends and subject to the prior rights and privileges attaching to any other class of shares of the Corporation, have the right to receive the remaining property and assets of the Corporation upon dissolution.

(b) Class B Common Shares in an unlimited number

The Class B Common shares are non-voting (except as expressly provided in the Business Corporations Act), subject to the prior rights and privileges attaching to any other class of shares of the Corporation, have the right to receive any dividend declared by the Corporation and the right to receive the remaining property and assets of the Corporation upon dissolution.

The holders of the Class A and Class B Common Shares need not rank equally nor be treated equally in the declaration or payment of dividends and the directors shall have full and absolute discretion to declare and pay dividends:

- (I) to the holders of Class A Common Shares only; or
- (II) to the holders of Class B Common Shares only; or
- (III) in different amounts to the holders of Class A Common Shares and Class B Common Shares; provided that all dividends paid on Class A Common Shares shall be paid in proportion to the number of Class A Common Shares held by each shareholder and all dividends paid on Class B Common Shares shall be paid in proportion to the number of Class B Common Shares held by each shareholder.

(c) Class A Preferred Shares

The Class A Preferred Shares are voting and the holders of the Class A Preferred Shares shall be entitled to rank ahead of the holders of the Class A and Class B Common Shares as to dividends. The Class A Preferred Shares shall be entitled to a fixed non-cumulative dividend at the rate of 7% per

annum on the Redemption Amount (as hereinafter defined) per share payable yearly. The Class A Preferred Shares shall not be entitled to participate any further with respect to dividends except to the extent hereinbefore provided;

- (I) no dividend shall be declared or paid on any class of shares of the Corporation if it would result in the realizable value of the assets of the Corporation, net of liabilities which exist at the relevant time being less than the aggregate of the Redemption Amounts of all of the issued and outstanding Class A Preferred Shares;
- (II) in the event of a liquidation, dissolution or winding up of the Corporation or any other distribution by way of repayment of capital, the holders of the Class A Preferred Shares shall be entitled to receive an amount equal to the Redemption Amount per share together with any declared by unpaid dividends prior to any payment or distribution to any other class of shares of the Corporation. The Class A Preferred Shares shall not be entitled to share any further in the distribution of the property or assets of the Corporation except to the extent hereinbefore provided;
- (III) The Class A Preferred Shares, or any part thereof, shall be subject to redemption or purchase, at an amount equivalent to the Redemption Amount per share plus any declared by unpaid dividends, at any time, at the option of the directors of the Corporation, without the consent of the holders thereof, and if less than the whole of the outstanding Class A Preferred Shares shall be so redeemed or purchased, the shares to be redeemed or purchased shall be selected in such manner as the Board of Directors may determine;
- (IV) the holders of the Class A Preferred Shares shall be entitled to require the Corporation to redeem or purchase at any time all or any of the Class A Preferred Shares registered in the name of such holder on the books of the Corporation by tendering to the Corporation at its registered office the share certificate or certificates representing the Class A Preferred Shares which the registered holder desires to have the Corporation redeem or purchase, together with the request in writing specifying that the registered holder desires to have the said Class A Preferred Shares represented by such certificate or certificates redeemed to purchased by the Corporation, and stating the business day (hereinafter called the "Redemption Date") on which the holder desires to have the Corporation redeem or purchase such shares. Upon receipt of a share certificate or certificates representing the Class A Preferred Shares which the registered holder desires to have the Corporation redeem or purchase, together with such a request, the Corporation shall, on the Redemption Date, redeem or purchase such Class A Preferred Shares by paying to the registered holder an amount equivalent to the Redemption Amount per share for each Class A Preferred Share being redeemed or purchased plus all declared by unpaid dividends thereon. Such payment shall be made by cheque payable at par at any branch of the Corporation's bankers for the time being in Canada. The said Class A Preferred Shares shall be redeemed or purchased on the Redemption Date and from and after that date such shares shall cease to be entitled to dividends, and the holders thereof shall not be entitled to exercise any of the rights of holders of Class A Preferred Shares in respect thereof unless payment of the Redemption Amount plus any declared by unpaid dividends is not paid on the Redemption Date in which event the rights of the holders of the said Class A Preferred Shares shall remain unaffected; and
- (V) the Redemption Amount with respect to each Class A Preferred Share shall be an amount determined by a resolution of the Board of Directors provided that the said Redemption

Amount shall be fixed by the Board of Directors prior to the issuance of any of the said Class A Preferred Shares.

MARKET FOR SECURITIES

Trading Price and Volume

Since March 1, 2004 the Corporation's securities are listed and posted for trading on the Toronto Stock Exchange. The trading symbol of the Company is "ISR". The Company has currently 16,096,084 common shares outstanding. During the fiscal year ended December 31, 2009, the Company traded on the TSX Exchange as follows:

Month	Open \$	High \$	Low \$	Close \$	Volume
Dec-09	0.50	0.95	0.47	0.54	40,500
Nov-09	0.67	0.67	0.47	0.48	5,200
Oct-09	0.47	0.68	0.45	0.65	18,000
Sep-09	0.38	0.45	0.37	0.45	17,400
Aug-09	0.40	0.43	0.35	0.38	16,800
Jul-09	0.42	0.50	0.42	0.42	10,500
Jun-09	0.52	0.53	0.41	0.47	17,400
May-09	0.67	0.67	0.50	0.51	65,500
Apr-09	0.70	0.76	0.60	0.67	16,400
Mar-09	0.64	0.75	0.56	0.75	25,200
Feb-09	0.69	0.81	0.64	0.64	9,900
Jan-09	0.73	0.85	0.69	0.69	29,800

Stock options and Warrants as of March 24, 2010:

	Number of Warrants	Exercise Price
Warrants	330,644	\$ 3.25
	1,084,000	\$2.00
	212,000	\$ 1.25
Total	1,626,644	

	Number of Options	Exercise Price
Stock options	100,000	\$ 0.60
	50,000	\$0.70
	50,000	\$ 1.93
	150,000	\$ 1.00
	635,000	\$ 1.25
Total	985,000	

DIRECTORS AND OFFICERS

The following table sets forth the names and municipalities of residence of all the directors and officers of International Sovereign Energy Corp., their positions and offices within the Company, their principal occupations within the past five years and the period during which each director has served as a directors or officer of the Company.

Name, Province of Residence	Present Office or Position Held	Principal Occupation During the Last Five Years	Number of voting securities beneficially owned directly or indirectly	Percentage of voting securities beneficially owned directly or indirectly
John Lokker ^{1,2,3} Caledon, Ontario	Director, Chairman, Audit Chair	Occupation. CEO of Neal Traffic Services Limited, Brampton providing operational and administrative logistics support services to the shipping public. Clublink Enterprises, Director and Chair of the Audit Committee since 2000	420,000	2.6%
Eugene Hretzay ² Mississauga, Ontario	Director,	Prior to September, 2004 was Corporate Counsel & Secretary to Morguard Corporation (real estate) and Tri-White Corporation (tourism). From September, 2004 to March, 2006 was an oil and gas auditor for Deloitte & Touche LLP, Calgary. From April, 2006 to May, 2008 was President of Lexervice PC (cross-border tax and transactions legal services) From June, 2008 to December 31, 2009 was the President & CEO of the Corporation and a director since August, 2007.	250,000	1.6%
Gordon Ashworth ^{1,2,3,4} Toronto, Ontario	Director	Partner and Chairman, Devon Communications since 2003 Baymount Incorporated, Director, and member of Audit Committee since 2005.	64,500	0.4%
Peter Proszanski ^{1,2,3,4} Toronto, Ontario	Director	Senior Partner, Himelfarb, Proszanski LLP	81,000	0.5%
Sharad Mistry ² Thornhill, Ontario	Director, Chief Financial Officer, Interim Chief Executive Officer, Corporate Secretary	1996 to 2008 President of SNRS International Inc., providing Chief Financial Officer services to public and private companies. 2004 to present: Director, Finance Chair Registered Insurance Brokers of Ontario From June, 2008 to present is the CFO and Interim CEO of the Corporation.	165,000	1.0%

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Reserves Committee

(4) Member of Corporate Governance Committee

(5) Based on information provided by the individual directors and officers. Does not include options or warrants to purchase common shares.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of the directors or executive officers of the Corporation is, or has been within the past 10 years, a director, chief executive officer or chief financial officer of any company, including the Corporation, that while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or after such persons ceased to be a director, chief executive officer or chief financial officer of the Company, was the subject of a cease trade or similar order or an order that denied the Company access to any exemption under securities legislation, for a period of more than 30 consecutive days, which resulted from an event that occurred while acting in such a capacity.

In addition, no director or executive officer nor any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, or has been within the past 10 years, a director or executive officer of any company, including the Corporation, that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets other than as set forth below.

None of the Corporations' directors or executive officers, nor any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, have been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

None

ESCROWED SECURITIES

There are no securities subject to escrow requirements.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the Board of Director's is attached hereto as Appendix A. The members of the Audit Committee are Mr. John Lokker (Chairman), Mr. Gordon Ashworth and Mr. Peter Proszanski.

The **Audit Committee** shall review:

- (a) all annual and interim financial statements intended for circulation among shareholders and shall report thereon the Board;
- (b) the nomination of auditors;
- (c) the over-all scope and results of the audit;

- (d) internal financial controls; and
- (e) financial information for publication for various purpose.

In addition, the Board may refer to the Audit Committee such matters and questions relating to the financial position of the Corporation and its affiliates as the Board may from time to time see fit. The Audit Committee has the right, for the purpose of performing their duties, of inspecting all the books and records of the Corporation and of discussing such accounts and records and any matters relating to the financial position of the Corporation with the officers and auditors of the Corporation.

Composition of the Audit Committee

John Lokker, Peter Proszanski and Gordon Ashworth are audit committee members and are all:

- (i) independent and
- (ii) financially literate.

Relevant Education and Experience

John Lokker

A Chartered Accountant and a Certified Fraud Examiner (CFE).

Peter Proszanski

Partner in Himelfarb Proszanski dealing in securities law.

Gordon Ashworth

Member of Audit Committee of Baymount Incorporated.

Audit Committee Oversight

There has not been a recommendation of the audit committee to nominate or compensate an external auditor that has not been adopted by the board of directors.

Pre-Approval Policies and Procedures

The audit committee has not yet adopted specific policies and procedures for the engagement of non-audit services.

External Auditor Service Fees

Audit Fees

The aggregate fees billed to ISR by Deloitte Touche LLP in 2009 and 2008 were as follows:

					2009	2008
					\$	\$
Audit fees					96,000	80,150
Audit related services					8,500	-
Tax fees					16,400	13,250
All other fees					2,500	-
					123,400	93,400

The Audit Committee reviews the annual audit fees and considers the issue of independence in the context of all services provided to the Company.

Audit Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance related services by the Company's external auditor that are reasonable related to the performance of the audit or review of the Company's financial statements that are not reported under "Audited Fees" above were \$8,500 in 2009 and nil in 2008.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning were \$16,400 in 2009 and nil in 2008.

All Other Fees

The aggregate fees billed in each of the last two fiscal years for products and services provided by the Company's external auditors other than services reported above were \$2,500 in 2009 and nil in 2008.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On May 27, 2009, the Company was informed by MGCL that the Company was in default of non-payment of cash calls of its 15% WI the Sukkur and Sujawal blocks, if payment of all outstanding cash calls of approximately US\$1.2 million was not paid within seven days. Under the Joint Operating Agreement ("JOA"), the Company has the right to remedy the default during a period of 60 days by making payment of all its share of the cash calls with interest at three percent over LIBOR or forfeit its WI. In the event of forfeiture, the Company will not be entitled to receive any consideration for such forfeited working interest.

On August 1, 2009, the Company was granted a temporary injunction until August 8, 2009, that stays MGCL and Petroleum Exploration (Pvt) Limited ("PEL") from forfeiture of the Company's WI in the Sukkur block.

On September 2, 2009, the Company filed application for contempt of court and the court issued initial contempt notices to the Company's working interest partners in the Sukkur Block, who have ignored the injunction and have tried to forfeit the Company's working interest. The notices were

successfully issued on September 4, 2009 with a hearing date set, however due to subsequent adjournments the case is yet to be heard.

On October 3, 2009, the Company was granted a temporary injunction that stays MGCL from seeking forfeiture of the Company's WI in the Sujawal Block until October 5, 2009, and due to subsequent adjournments the arguments on the injunction application for the Sukkur Block and for written statement of MGCL in the Sujawal Block have yet to be heard. As at the date of this MD&A, the date fixed for the hearing is April 3, 2010.

Neither the Company, nor any of its properties or holdings is aware of or subject to any other current or pending legal actions, or penalties or sanctions. The Company has initiated legal action against former management discussed below.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Messrs. Lutfur Rahman Khan, Omair Choudhry, and Waseem Rahman (the "Former Executive(s)") as senior executive officers of the Company, unilaterally withdrew approximately \$1.2 million from the Company's bank account prior to the Annual General Meeting on June 23, 2008. The Former Executives considered themselves to be entitled to a change of control payment under their respective employment contracts. The Company is attempting to recover these payments through the courts, which trial is scheduled for April, 2010.

Mr. Sharad Mistry the "Executive" as senior executive officer is a party to separate employment services agreement with the Corporation setting out the terms of their services (including annual base salary, bonus and benefit participation). Upon termination of the Executive by the Company for any reason other than cause or if there has been a material change in the composition of the board or share ownership of the Company not supported by the Executive, then the Executive is entitled to a payment, at the date of termination, equal to one and half year's salary and bonus, plus an amount equal to the benefit costs for the year and half. The agreement is available for inspection, by request, at the registered office of the Corporation.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified as a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by ISR during, or related to, ISR's most recently completed financial year other than Paddock Lindstrom and Associated Ltd., ISR's independent engineering evaluator and Deloitte & Touche LLP, ISR's auditors.

Paddock Lindstrom and its shareholders, as a group, have confirmed that they do not own directly or indirectly any outstanding shares of the Company. Deloitte & Touche LLP have confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

MATERIAL CONTRACTS

Line of Credit

During the year ended December 31, 2009 the Company established a revolving line of credit to a maximum of \$10,000,000 (December 31, 2008- \$10,000,000). The facility is subject to annual review. The next review is scheduled for April 1, 2010. The operating loan bears interest at prime plus 1% and is secured by a demand debenture for a maximum of \$25,000,000 providing a floating charge over all assets of the Company and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business without consent of the financial institution and to provide security under section 426 of the Bank Act and/or assign natural gas contracts.

Purchase contracts

The Company has a gas purchase contract with BP Canada Energy Company, renewable annually on November 1.

The Company has an ongoing oil purchase contract with Plains Marketing Canada.

TRANSFER AGENTS AND REGISTRAR

Valiant Trust Company in Calgary, Alberta has been duly appointed as the Transfer Agent and Registrar.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com. Security holders may also contact the Company by mail, email, telephone or facsimile at the address below for additional information or to request copies of the Corporation's financial statements and management's discussion and analysis. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended December 31, 2009, also available on SEDAR. Additional information, including directors' and officers' remuneration and indebtedness and principal holders of securities is contained in the Company's Information Circular (Form 51-102F5) dated April 21, 2009, for its most recent annual and special meeting of shareholders.

Additional Information

International Sovereign Energy Corp.
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Email info@isove.com

INTERNATIONAL SOVEREIGN ENERGY CORP.
(the “Corporation”)

APPENDIX A - Terms of Reference for the Audit Committee

I. PURPOSE

The primary function of the Audit Committee (the “**Committee**”) is to assist the board of directors (“**Board**”) in fulfilling its oversight responsibilities by reviewing:

- A. the financial information of the Corporation and its subsidiaries (together referred to herein as the “Corporation”) that will be provided to the shareholders and regulatory bodies;
- B. the systems of internal controls and disclosure controls that management and the Board have established;
- C. all external audit and review processes, including the independence, qualifications and performance of the external auditor; and
- D. the compliance by the Corporation with applicable financial related legal and regulatory requirements

II. COMPOSITION AND OPERATIONS

- A. The Audit Committee shall consist of such number of directors, in no event to be less than three, as the Board may from time to time determine by resolution. The members of the Audit Committee shall be appointed by the Board and shall meet the independence, financial literacy and other membership requirements under applicable laws, rules and regulations as determined by the Board. The Chairman of the Audit Committee shall be appointed by the Board.
- B. The Corporation’s auditors shall be advised of the names of the Committee members and will, at the discretion of the Committee, receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the auditors’ duties.
- C. The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or shareholders.
- D. The Committee shall meet at least once (by person or by teleconference), or circulate a resolution, in each fiscal quarter to review and approve the Corporation’s quarterly financial statements and managements’ discussion and analysis in respect thereof (“MD&A”) for the immediately preceding fiscal quarter, and to review and recommend

approval by the full Board of the annual financial statements and MD&A for the immediately preceding fiscal year.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

1. The Committee will ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information and the Committee will review and recommend for approval to the full Board financial information that will be made publicly available. This includes the Corporation's annual financial statements and MD&A, the Corporation's quarterly financial statements and MD&A, the annual information form and financial information in any prospectuses or private placement documents.
2. On a periodic basis, review and discuss with management and the external auditor the following:
 - a) major issues regarding (i) accounting principles and financial statement presentations, including any significant changes in the selection or application of accounting principles, (ii) the adequacy of the Corporation's internal controls and (iii) any special audit steps adopted in light of identified material control deficiencies, if any;
 - b) analyses prepared by or on behalf of management setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements when such alternatives have been selected in the current reporting period; and
 - c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures (if any), on the financial statements of the Corporation.
3. Review and discuss any report from the external auditor on:
 - a) all critical accounting policies and practices used by the Corporation;
 - b) all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternate

treatments and disclosures and the treatment preferred by the external auditor; and

- c) other material written communications between the external auditor and management.

B. Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control, disclosure control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

1. review the Corporation's risk management controls and policies;
2. consider whether the information systems appear to be reliable and the systems of internal controls and external controls appear to be properly designed and effectively implemented through discussions with and reports from management and external auditor; and
3. review management steps to implement and maintain appropriate internal control procedures and disclosure control procedures, including a review of policies.

C. External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

1. review and recommend to the Board, for shareholder approval, engagement of the external auditor;
2. review and recommend to the Board the compensation of the external auditor;
3. meet with the external auditors to discuss the Corporation's quarterly and annual financial statements and MD&A and the auditor's report including the appropriateness of accounting policies and underlying estimates and resolve any disagreements between management and the external auditors regarding financial reporting;
4. review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including:
 - a) any difficulties encountered, or restrictions imposed by management, during the annual audit;
 - b) any significant accounting or financial reporting issue;

- c) if completed, the auditors' evaluation of the Corporation's system of internal controls, procedures and documentation;
 - d) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - e) any other matters the external auditor brings to the Committee's attention; and
5. assess the performance and consider the annual appointment of external auditors for recommendation to the Board;
 6. review and receive assurances on the independence of the external auditors;
 7. review and pre-approve all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
 8. meet periodically, and at least annually, with the external auditors without management present.

D. Other

The Committee will also:

1. review insurance coverage of significant business risks and uncertainties;
2. review material litigation and its impact on financial reporting;
3. review policies and procedures for the review and approval of officers' expenses and prerequisites;
4. establish policies for:
 - a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and
 - c) review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.

IV. ACCOUNTABILITY

- A. The Committee Chairman has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.
- B. The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.
- C. The Committee shall review and discuss with the Board, on an annual basis, the adequacy of the Audit Committee and the terms of reference for the Committee, and make recommendations as required.

V. COMMITTEE TIMETABLE

A proposed timetable of the Committee meetings shall be prepared at the beginning of each fiscal year.

VI. RELIANCE ON EXPERTS

In contributing to the Committees' discharging of its duties under this mandate, each member shall be entitled to rely in good faith on:

- A. financial statements of the Corporation represented to the member by an officer of the Corporation, or in a written report of the external auditors, to present fairly the financial position of the Corporation and the results of its operations in accordance with generally accepted accounting principles; and
- B. any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

VII. LIMITATION OF COMMITTEE'S DUTIES

In contributing to the Committee's discharging of its duties under these terms of reference, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in these terms of reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to endeavour to gain reasonable assurance (but not to ensure) that financial reporting is being conducted effectively and that the objectives of the Corporation's financial reporting are being met and to enable the Committee to report thereon to Board.

INTERNATIONAL SOVEREIGN ENERGY CORP.
(the “Corporation”)

APPENDIX B - WHISTLE BLOWER POLICY

Scope of the Whistle Blower Policy

The Audit Committee of the board of directors of the Corporation is responsible under Canadian securities laws for the integrity of the financial reporting of the Corporation and for the system of internal controls, the audit process and monitoring compliance with the financial reporting laws applicable to the Corporation. The integrity of the financial information of the Corporation is of paramount importance to the Audit Committee and to the board of directors.

Multilateral Instrument 52-110 - *Audit Committee* (“**MI 52-110**”), as amended, replaced or superseded from time to time, has outlined certain aspects of audit committee responsibility and the Audit Committee understands the importance of the responsibilities described in MI 52-110 and intends to be in compliance with such responsibilities. One such responsibility relates to the implementation of procedures for addressing complaints regarding questionable accounting or auditing matters.

This document outlines the procedure which the Audit Committee has established for the confidential, anonymous submission by employees of the Corporation and its subsidiaries and affiliates of any concerns which applicable individuals may have regarding questionable accounting or auditing matters.

Procedure for Reporting Concerns

Applicable individuals are encouraged to submit all good faith concerns and complaints in respect of the accuracy and integrity of the Corporation’s accounting, auditing and financial reporting or internal controls and concerns, without fear of retaliation of any kind. If an applicable individual has any concerns about accounting, audit, internal controls or financial reporting matters which he or she considers to be questionable, incorrect, misleading or fraudulent, the applicable individual is urged to come forward with any such information, complaints or concerns, without regard to the position of the person or persons responsible for the subject matter of the relevant complaint or concern.

The applicable individual should report the matter to the Chairman of the Audit Committee or his or her successor (the “**Designated Contact**”). The applicable individual should describe his or her concern in writing and should include sufficient information to allow the Audit Committee to understand and review the written concern.

If the applicable individual wishes to remain anonymous, the written communication should clearly indicate this wish for anonymity. All concerns should be forwarded to the Chairman of the Audit Committee, in a sealed envelope labeled as follows: “***To be opened by the Audit Committee only.***”

If the applicable individual wishes to discuss any matter with the Audit Committee, this request should be indicated in the submission. In order to facilitate such a discussion, the applicable individual may include a telephone number at which he or she can be contacted. Any such envelopes received by the Corporation or its subsidiaries and affiliate will be forwarded promptly and unopened to the Designated Contact.

Investigations

Promptly following the receipt of any complaints submitted to it, the Audit Committee will investigate each complaint and take appropriate corrective actions.

The Audit Committee has the authority to:

- (a) conduct any investigation which it considers appropriate, and has direct access to the external auditor of the Corporation, as well as officers and employees of the Corporation and its subsidiaries and affiliates, as applicable; and
- (b) retain, at the Corporation's expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties.

In conducting any investigation, the Audit Committee shall use reasonable efforts to protect the anonymity of the applicable individual.

Records

The Audit Committee will retain as part of its records, any complaints or concerns for a period of no less than seven (7) years. The Audit Committee will keep a written record of all such reports or inquiries and make quarterly reports on any ongoing investigation which will include steps taken to satisfactorily address each complaint.

Employee Protection

All employees are assured that no retaliation of any kind is permitted against the applicable individual for complaints or concerns made in good faith. No employee will be adversely affected because the employee refuses to carry out a directive which, in fact, constitutes corporate fraud, or is a violation of federal or provincial law.

Questions about this Policy

Questions regarding the policy may be directed to the Designated Contact or any other member of the Audit Committee.

APPENDIX C
FORM 51-101F1

*STATEMENT OF RESERVES DATA
AND OTHER OIL AND GAS INFORMATION*

This is the form referred to in item 1 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (“NI 51-101”)

PART 1 DATE OF STATEMENT

Item 1.1 Relevant Dates

1. This statement is dated March 24, 2010.
2. The effective date of the information being provided is December 31, 2009.
3. The preparation date of the information being provided is March 17, 2010.

PART 2

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

INTERNATIONAL SOVEREIGN ENERGY CORP.

The following tables set forth certain information relating to the Company's crude oil, natural gas and natural gas liquid reserves and the net present value of future net revenues associated with such reserves as at December 31, 2009, as evaluated by Paddock Lindstrom and Associates Ltd. ("PLA") in the PLA Progress Report based upon forecast price and cost assumptions. The PLA Progress Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in CSA 51-324. PLA was engaged to provide an evaluation of all of the Company's proved and proved plus probable reserves. Numbers in each column may not add due to rounding.

All future net revenues are stated prior to provision for interest, general and administrative expenses and after deduction of royalties and estimated future capital expenditures. Future net revenues have been presented on both a before and after tax basis.

It should not be assumed that the present worth of estimated future cash flow presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of ISR's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein. Readers should review the definitions and information contained in "Natural Gas and Petroleum Reserves and Production Information" in conjunction with the following tables and notes.

Item 2.1 Reserves Data (Forecast Prices and Costs)

1. Breakdown of Reserves (Forecast Case)

Summary of Oil and Gas Reserves
INTERNATIONAL SOVEREIGN ENERGY CORP.
 Forecast Prices & Costs - PLA December 31, 2009 Prices

Reserves Category	Oil		Heavy		Solution		Natural Gas Assoc. & Non-Assoc.		Natural Gas Liquids		Total BOE	
	Light and Medium		Gross (MStb)	Net (MStb)	Gross (MMcf)	Gross (MMcf)	Net (MMcf)	Net (MMcf)	Gross (MStb)	Net (MStb)	Gross (MBoe)	Net (MBoe)
	Gross (MStb)	Net (MStb)										
PDP	123.8	128.6	151.9	142.3	79.3	74.8	2918.6	2261.0	18.2	13.6	793.7	673.9
PDNP	0.0	0.0	0.0	0.0	0.0	0.0	163.0	121.8	0.0	0.0	27.2	20.3
PU	6.0	4.9	0.0	0.0	0.0	0.0	383.7	330.7	0.0	0.0	69.9	60.0
PD+PU	129.8	133.6	151.9	142.3	79.3	74.8	3465.3	2713.5	18.3	13.6	890.8	754.2
PU	50.9	49.1	131.9	112.0	52.4	48.0	3892.8	2837.6	20.1	15.1	860.4	657.1
P+PA	180.7	182.7	283.8	254.3	131.7	122.8	7358.1	5551.2	38.3	28.7	1751.2	1411.4

2. Net Present Value of Future Net Revenue (Forecast Case)

Summary of Net Present Values of Future Net Revenue					
INTERNATIONAL SOVEREIGN ENERGY CORP.					
Forecast Prices & Costs - PLA December 31, 2009 Prices					
Before Income Taxes					
Reserves Category	0%	5%	10%	15%	20%
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Developed Producing	19627.2	17413.0	16244.2	14021.0	12438.4
Proved Developed Non-Producing	455.6	413.1	388.2	335.7	294.0
Proved Undeveloped	1197.5	1090.3	1027.1	892.4	784.3
Total Proved	21280.3	18916.4	17659.5	15249.1	13516.7
Probable Additional	13395.5	10587.4	9229.9	6859.0	5329.9
Total Proved + Probable	34675.8	29503.8	26889.4	22108.1	18846.6
After Income Taxes					
Reserves Category	0%	5%	10%	15%	20%
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Developed Producing	19172.6	17118.4	16020.1	13902.5	12372.2
Proved Developed Non-Producing	370.1	347.7	333.3	299.7	270.0
Proved Undeveloped	955.3	895.8	858.4	773.0	698.5
Total Proved	20498.0	18361.9	17211.8	14975.2	13340.7
Probable Additional	10091.9	8010.3	7004.3	5246.6	4110.2
Total Proved + Probable	30589.8	26372.2	24216.1	20221.8	17450.9

Notes:

1. Values may not add due to rounding
2. M\$ = Thousands of Dollars(\$CDN)

3. Additional Information Concerning Future Net Revenue (Forecast Case)

Total Future Net Revenue (Undiscounted)								
INTERNATIONAL SOVEREIGN ENERGY CORP.								
Forecast Prices & Costs - PLA December 31, 2009 Prices								
Reserves Category	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue BIT	Income Taxes	Future Net Revenue AIT
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Developed Producing	47692.6	6692.1	14854.4	112.5	605.0	25428.6	1013.4	24415.1
Proved Developed Non-Producing	1082.2	236.2	271.2	13.3	17.5	543.9	136.0	407.9
Proved Undeveloped	3100.0	449.3	821.1	347.9	64.6	1417.1	354.3	1062.8
Total Proved	51874.8	7377.7	15946.6	473.7	687.2	27389.6	1503.8	25885.8
Probable Additional	53183.2	10501.1	17338.8	2524.9	275.3	22543.1	5675.0	16868.1
Total Proved + Probable	105058.0	17878.8	33285.5	2998.6	962.4	49932.7	7178.7	42754.0

Oil and Gas Reserves and Net Present Values By Production Group
INTERNATIONAL SOVEREIGN ENERGY CORP.
Forecast Prices & Costs - PLA December 31, 2009 Prices

	Reserves						Net Present Value Before Tax				
	Oil		Gas		Natural Gas Liquids		0%	5%	10%	15%	20%
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)					
Light and Medium Oil											
PDP	123.8	128.6	7.9	6.9	1.1	0.8	6710.8	5678.2	5163.9	4244.1	3634.2
PDNP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PU	6.0	4.9	0.0	0.0	0.0	0.0	15.6	3.1	-4.2	-19.9	-32.3
PD+PU	129.8	133.6	7.9	6.9	1.1	0.8	6726.5	5681.3	5159.6	4224.2	3601.9
PA	50.9	49.1	5.8	5.1	0.8	0.6	2021.0	1412.3	1166.7	805.4	610.4
P+PA	180.7	182.7	13.6	12.0	1.9	1.4	8747.5	7093.6	6326.3	5029.6	4212.2
Heavy Oil											
PDP	151.9	142.3	71.5	67.9	0.0	0.0	5000.2	4331.6	3977.8	3312.1	2851.5
PDNP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PD+PU	151.9	142.3	71.5	67.9	0.0	0.0	5000.2	4331.6	3977.8	3312.1	2851.5
PA	131.9	112.0	46.7	43.0	0.0	0.0	2629.9	1957.7	1665.1	1211.2	954.2
P+PA	283.8	254.3	118.1	110.9	0.0	0.0	7630.1	6289.3	5642.9	4523.3	3805.8
Associated and Non-Associated Gas											
PDP	0.0	0.0	2918.6	2261.0	17.2	12.8	7916.2	7403.2	7102.5	6464.9	5952.7
PDNP	0.0	0.0	163.0	121.8	0.0	0.0	455.6	413.1	388.2	335.7	294.0
PU	0.0	0.0	383.7	330.7	0.0	0.0	1181.9	1087.2	1031.3	912.3	816.6
PD+PU	0.0	0.0	3465.3	2713.5	17.2	12.8	9553.7	8903.5	8522.0	7712.9	7063.3
PA	0.0	0.0	3892.8	2837.6	19.3	14.5	8744.6	7217.4	6398.1	4842.3	3765.3
P+PA	0.0	0.0	7358.1	5551.2	36.5	27.3	18298.2	16120.9	14920.1	12555.2	10828.6
Totals											
PDP	275.8	271.0	2998.0	2335.8	18.2	13.6	19627.2	17413.0	16244.2	14021.0	12438.4
PDNP	0.0	0.0	163.0	121.8	0.0	0.0	455.6	413.1	388.2	335.7	294.0
PU	6.0	4.9	383.7	330.7	0.0	0.0	1197.5	1090.3	1027.1	892.4	784.3
PD+PU	281.8	275.9	3544.7	2788.3	18.3	13.6	21280.3	18916.4	17659.5	15249.1	13516.7
PA	182.7	161.1	3945.2	2885.6	20.1	15.1	13395.5	10587.4	9229.9	6859.0	5329.9
P+PA	464.5	437.0	7489.9	5674.0	38.3	28.7	34675.8	29503.8	26889.4	22108.1	18846.6

Notes:

1. See NI 51-101 Table 5's for price and cost assumptions
2. Canadian properties prepared with PLA December 31, 2009 Prices and Costs Assumptions
3. Values may not add due to rounding
4. M\$ = Thousands of Dollars

International Sovereign Energy Corp.
Unit Value of Net Reserves By Production Group
INTERNATIONAL SOVEREIGN ENERGY CORP.
Forecast Prices & Costs - PLA December 31, 2009 Prices
Effective December 31, 2009

	Reserves			Net Total BOE (MMcf)	Net Present Value (10%) (M\$)	Unit Value (\$/bbl or \$/Mcf)
	Net Oil (Mbbbl)	Net Gas (MMcf)	Net NGL (MMcf)			
Light and Medium Oil						
Proved Developed Producing	128.6	6.9	0.8	130577.3	5163.9	39.55
Proved Developed Non-Producing	0.0	0.0	0.0	0.0	0.0	0.0
Proved Undeveloped	4.9	0.0	0.0	4920.0	-4.2	-0.86
Total Proved	133.6	6.9	0.8	135497.3	5159.6	38.08
Probable Additional	49.1	5.1	0.6	50569.0	1166.7	23.07
Total Proved + Probable	182.7	12.0	1.4	186066.3	6326.3	34.00
Heavy Oil						
Proved Developed Producing	142.3	67.9	0.0	153647.1	3977.8	25.89
Proved Developed Non-Producing	0.0	0.0	0.0	0.0	0.0	0.0
Proved Undeveloped	0.0	0.0	0.0	0.0	0.0	0.0
Total Proved	142.3	67.9	0.0	153647.1	3977.8	25.89
Probable Additional	112.0	43.0	0.0	119160.2	1665.1	13.97
Total Proved + Probable	254.3	110.9	0.0	272807.3	5642.9	20.68
Associated and Non-Associated Gas						
Proved Developed Producing	0.0	2261.0	12.8	389644.4	7102.5	18.23
Proved Developed Non-Producing	0.0	121.8	0.0	20315.3	388.2	19.11
Proved Undeveloped	0.0	330.7	0.0	55118.3	1031.3	18.71
Total Proved	0.0	2713.5	12.8	465078.0	8522.0	18.32
Probable Additional	0.0	2837.6	14.5	487405.8	6398.1	13.13
Total Proved + Probable	0.0	5551.2	27.3	952483.8	14920.1	15.66
Totals						
Proved Developed Producing	271.0	2335.8	13.6	673868.7	16244.2	24.11
Proved Developed Non-Producing	0.0	121.8	0.0	20315.3	388.2	19.11
Proved Undeveloped	4.9	330.7	0.0	60038.3	1027.1	17.11
Total Proved	275.9	2788.3	13.6	754222.3	17659.5	23.41
Probable Additional	161.1	2885.6	15.1	657135.0	9229.9	14.05
Total Proved + Probable	437.0	5674.0	28.7	1411357.4	26889.4	19.05

Notes:

1. Values may not add due to rounding
2. M\$ = Thousands of Dollars
3. Cash Flows do not include Alberta Royalty Tax Credit

Item 2.2 Reserves Data (Constant Prices and Costs)

N/A

Item 2.3 Reserves Disclosure Varies With Accounting

N/A

Item 2.4 Future Net Revenue Disclosure Varies With Accounting

N/A

PART 3 PRICING ASSUMPTIONS

Item 3.1 Constant Prices used in Estimates

N/A

Item 3.2 Forecast Prices used in Estimates

1.

(a) Pricing Assumptions

PADDOCK LINDSTROM & ASSOCIATES LTD. INTERNATIONAL SOVEREIGN ENERGY CORP. FORECAST PRICES AND COSTS ASSUMPTIONS December 31, 2009												
YEAR	WTI @ CUSHING \$/BBL	CDN/US EXCHANGE RATE	WTI @ CUSHING \$/BBL	EDM REF PRICE \$/BBL	HARDISTY 25 API \$/BBL	HEAVY 12 API \$/BBL	CROMER 29 API \$/BBL	CONDEN- SATE \$/BBL	BUTANE \$/BBL	PROPANE \$/BBL	ETHANE \$/BBL	SULPHUR \$/LT
2010	80.00	0.950	84.21	82.43	71.43	62.43	76.66	83.25	61.82	49.46	18.06	25.00
2011	82.50	0.950	86.84	85.02	73.02	65.02	79.07	85.87	63.77	51.01	19.59	30.00
2012	85.00	0.950	89.47	87.62	72.62	64.62	81.48	88.49	65.71	52.57	21.13	35.00
2013	90.00	0.950	94.74	92.84	75.84	67.84	86.34	93.77	69.63	55.71	22.78	40.00
2014	95.00	0.950	100.00	98.07	80.73	72.73	91.20	99.05	73.55	58.84	24.44	45.00
2015	96.90	0.950	102.00	100.03	82.34	74.34	93.03	101.03	75.02	60.02	25.24	50.00
2016	98.84	0.950	104.04	102.03	83.99	75.99	94.89	103.05	76.52	61.22	26.04	51.00
2017	100.81	0.950	106.12	104.07	85.67	77.67	96.79	105.11	78.05	62.44	26.84	52.02
2018	102.83	0.950	108.24	106.15	87.38	79.38	98.72	107.21	79.61	63.69	27.64	53.06
2019	104.89	0.950	110.41	108.27	89.13	81.13	100.70	109.36	81.21	64.96	28.19	54.12
2020	106.99	0.950	112.62	110.44	90.91	82.91	102.71	111.54	82.83	66.26	28.76	55.20
2021	109.13	0.950	114.87	112.65	92.73	84.73	104.76	113.78	84.49	67.59	29.34	56.31
2022	111.31	0.950	117.17	114.90	94.59	86.59	106.86	116.05	86.18	68.94	29.93	57.43
2023	113.53	0.950	119.51	117.20	96.48	88.48	109.00	118.37	87.90	70.32	30.53	58.58
2024	115.80	0.950	121.90	119.54	98.41	90.41	111.18	120.74	89.66	71.73	31.15	59.75
2025	118.12	0.950	124.34	121.94	100.37	92.37	113.40	123.15	91.45	73.16	31.78	60.95
2026	120.48	0.950	126.82	124.37	102.38	94.38	115.67	125.62	93.28	74.62	32.41	62.17
2027	122.89	0.950	129.36	126.86	104.43	96.43	117.98	128.13	95.15	76.12	33.07	63.41
YEAR	HENRY HUB \$/MMBTU	AECO C \$/MMBTU	ALBERTA 1 YR FIRM \$/MMBTU	ALBERTA SPOT \$/MMBTU	AGGRE- GATOR \$/MMBTU	ALLIANCE \$/MMBTU	ALBERTA AGRP \$/MMBTU	SASK SPOT \$/MMBTU	SASK PROVGAS \$/MMBTU	SUMAS SPOT \$/MMBTU	BC STN 2 \$/MMBTU	BC CANWEST WELLHEAD \$/MMBTU
2010	6.00	5.82	5.62	5.62	5.52	5.37	5.56	5.62	5.62	5.87	5.62	5.12
2011	6.50	6.29	6.09	6.09	5.99	5.83	6.03	6.09	6.09	6.34	6.09	5.59
2012	7.00	6.77	6.56	6.56	6.46	6.30	6.50	6.56	6.56	6.82	6.57	6.07
2013	7.50	7.28	7.07	7.07	6.97	6.81	7.01	7.07	7.07	7.33	7.08	6.58
2014	8.00	7.80	7.58	7.58	7.48	7.31	7.52	7.58	7.58	7.85	7.60	7.10
2015	8.25	8.05	7.83	7.83	7.73	7.55	7.77	7.83	7.83	8.10	7.85	7.35
2016	8.50	8.30	8.07	8.07	7.97	7.79	8.01	8.07	8.07	8.35	8.10	7.60
2017	8.75	8.55	8.32	8.32	8.22	8.03	8.26	8.32	8.32	8.60	8.35	7.85
2018	9.00	8.80	8.56	8.56	8.46	8.27	8.50	8.56	8.56	8.85	8.60	8.10
2019	9.18	8.97	8.73	8.73	8.63	8.44	8.67	8.73	8.73	9.02	8.77	8.27
2020	9.36	9.15	8.91	8.91	8.81	8.60	8.85	8.91	8.91	9.20	8.95	8.45
2021	9.55	9.34	9.09	9.09	8.99	8.78	9.03	9.09	9.09	9.39	9.14	8.64
2022	9.74	9.52	9.27	9.27	9.17	8.95	9.21	9.27	9.27	9.57	9.32	8.82
2023	9.94	9.71	9.45	9.45	9.35	9.13	9.39	9.45	9.45	9.76	9.51	9.01
2024	10.14	9.91	9.64	9.64	9.54	9.31	9.58	9.64	9.64	9.96	9.71	9.21
2025	10.34	10.11	9.84	9.84	9.74	9.50	9.78	9.84	9.84	10.16	9.91	9.41
2026	10.54	10.31	10.03	10.03	9.93	9.69	9.97	10.03	10.03	10.36	10.11	9.61
2027	10.76	10.51	10.23	10.23	10.13	9.88	10.17	10.23	10.23	10.56	10.31	9.81

Note: All prices escalated at 2% per year after 2026; All costs escalated at 2% per year from 2009; First year forecast is for 12 months

(b) Average Selling Prices

2009	Q1	Q2	Q3	Q4
Crude Oil (\$/Bbl)	\$ 42.21	\$ 58.59	\$ 80.63	\$ 63.30
Natural Gas Liquids (\$/Bbl)	\$ 5.97	\$ 32.95	\$ 42.58	\$ 61.96
Natural Gas (\$/Mcf)	\$ 4.70	\$ 3.32	\$ 3.05	\$ 4.41

3. **Qualified Reserves Evaluator**

The pricing assumptions provided in item 3.2 (Section 1) were provided by a qualified reserves evaluator (who is independent of International Sovereign Energy Corp.), namely Paddock Lindstrom & Associates Ltd.

PART 4 RECONCILIATIONS OF CHANGES IN RESERVES AND FUTURE NET REVENUE

Item 4.1 Reserves Reconciliation

Reconciliation of Company WI Reserves by Principal Product Type INTERNATIONAL SOVEREIGN ENERGY CORP. Working Interest Share Opening: 2008-12-31 Forecast Prices & Costs - PLA December 31, 2008 Prices Closing: 2009-12-31 Forecast Prices & Costs - PLA December 31, 2009 Prices									
	Light & Medium Oil			Heavy Oil			Associated & Non-Associated Gas		
	WI Proved	WI Probable	WI Proved + Probable	WI Proved	WI Probable	WI Proved + Probable	WI Proved	WI Probable	WI Proved + Probable
	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	MMcf	MMcf	MMcf
Opening Balance	127.7	56.8	184.5	143.8	109.5	253.4	5,526.6	4,987.9	10,514.6
Extensions	6.0	0.8	6.8	0.0	0.0	0.0	0.0	162.7	162.7
Improved Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions	6.3	-6.7	-0.4	28.5	-16.5	11.9	-392.5	-1,483.4	-1,876.0
Discoveries	0.0	0.0	0.0	0.0	38.9	38.9	0.0	225.6	225.6
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	-10.2	0.0	-10.2	-20.4	0.0	-20.4	-1,668.8	0.0	-1,668.8
Closing Balance	129.8	50.9	180.7	151.9	131.9	283.8	3,465.3	3,892.8	7,358.1

Reconciliation of Company Working Interest Reserves by Principal Product Type
INTERNATIONAL SOVEREIGN ENERGY CORP.

Opening: 2008-12-31 Forecast Prices & Costs - PLA December 31, 2008 Prices; Closing: 2009-12-31 Forecast Prices & Costs - PLA December 31, 2009 Prices

	Light & Medium Oil			Heavy Oil			Associated & Non-Associated Gas			Total		
	WI Proved	WI Probable	WI Proved + Probable	WI Proved	WI Probable	WI Proved + Probable	WI Proved	WI Probable	WI Proved + Probable	WI Proved	WI Probable	WI Proved + Probable
	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb	Mstb
OIL												
Opening Balance	127.7	56.8	184.5	143.8	109.5	253.4	0.0	0.0	0.0	271.5	166.3	437.9
Extensions	6.0	0.8	6.8	0.0	0.0	0.0	0.0	0.0	0.0	6.0	0.8	6.8
Improved Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions	6.3	-6.7	-0.4	28.5	-16.5	11.9	0.0	0.0	0.0	34.8	-23.2	11.5
Discoveries	0.0	0.0	0.0	0.0	38.9	38.9	0.0	0.0	0.0	0.0	38.9	38.9
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	-10.2	0.0	-10.2	-20.4	0.0	-20.4	0.0	0.0	0.0	-30.6	0.0	-30.6
Closing Balance	129.8	50.9	180.7	151.9	131.9	283.8	0.0	0.0	0.0	281.7	182.8	464.5
GAS												
Opening Balance	10.5	4.5	15.0	46.3	37.4	83.7	5,526.6	4,987.9	10,514.6	5,583.4	5,029.8	10,613.3
Extensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	162.7	162.7	0.0	162.7	162.7
Improved Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions	-0.7	1.3	0.5	32.4	9.3	41.6	-392.5	-1,483.4	-1,876.0	-360.8	-1,472.8	-1,833.9
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	225.6	225.6	0.0	225.6	225.6
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	-1.9	0.0	-1.9	-7.2	0.0	-7.2	-1,668.8	0.0	-1,668.8	-1,677.9	0.0	-1,677.9
Closing Balance	7.9	5.8	13.6	71.5	46.7	118.1	3,465.3	3,892.8	7,358.1	3,544.7	3,945.3	7,489.8
NGL												
Opening Balance	1.3	0.5	1.8	0.0	0.0	0.0	46.2	30.4	76.7	47.5	30.9	78.5
Extensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Improved Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions	0.1	0.3	0.4	0.0	0.0	0.0	-22.0	-15.6	-37.7	-21.9	-15.3	-37.3
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.5	4.5	0.0	4.5	4.5
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	-0.3	0.0	-0.3	0.0	0.0	0.0	-7.0	0.0	-7.0	-7.3	0.0	-7.3
Closing Balance	1.1	0.8	1.9	0.0	0.0	0.0	17.2	19.3	36.5	18.3	20.1	38.4
BOEs												
Opening Balance	130.8	58.0	188.7	151.6	115.8	267.3	967.3	861.8	1,829.1	1,249.6	1,035.5	2,285.2
Extensions	6.0	0.8	6.8	0.0	0.0	0.0	0.0	27.1	27.1	6.0	27.9	33.9
Improved Recovery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions	6.3	-6.2	0.1	33.9	-15.0	18.8	-87.4	-262.8	-350.4	-47.2	-284.0	-331.4
Discoveries	0.0	0.0	0.0	0.0	38.9	38.9	0.0	42.1	42.1	0.0	81.0	81.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	-10.8	0.0	-10.8	-21.6	0.0	-21.6	-285.1	0.0	-285.1	-317.6	0.0	-317.6
Closing Balance	132.2	52.7	184.9	163.8	139.7	303.5	594.8	668.1	1,262.9	890.8	860.5	1,751.2

PART 5 ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Item 5.1 Undeveloped Reserves

1. Proved Undeveloped Reserves
 - (a)

YEAR	Light & Medium Oil		Heavy Oil		Associated & Non-Associated Gas		NGL	
	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End
	Mstb	Mstb	Mstb	Mstb	MMcf	MMcf	Mstb	Mstb
Pre-2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2008	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2009	4.9	4.9	0.0	0.0	330.7	330.7	0.0	0.0

- (b) International Sovereign relies upon its independent reserve evaluator to assign probable undeveloped reserves to company properties in accordance with criteria as set out in the various governing regulations. Therefore International Sovereign, as such, does not attribute reserves or reserve categories to our own properties. We understand that evaluator looks to 2 criteria: firstly, whether wells have to be drilled to access the assigned reserves, and secondly, whether the size of the remaining capital to be spent to bring the property on to production is significant relative to the underlying property value.

International Sovereign plans to develop the proved undeveloped reserves over the next 3 years once the current production from the wellbores that have the assigned reserves are no longer economic along with additional new drills.

2. Probable Undeveloped Reserves

YEAR	Light & Medium Oil		Heavy Oil		Associated & Non-Associated Gas		NGL	
	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End	1 st Attributed	Cumulative at Year End
	Mstb	Mstb	Mstb	Mstb	MMcf	MMcf	Mstb	Mstb
Pre-2007	0.0	0.0	0.0	0.0	451	451	0.0	0.0
2007	0.0	0.0	0.0	0.0	941.3	1392.3 ¹	5.5	5.5
2008	0.0	0.0	0.0	0.0	0.0	1392.3	0.0	5.5
2009	0.0	0.0	30.1	30.1	310.5	1702.8	3.3	8.8

¹ Undeveloped reserves were technically revised from portions assigned in 2006 & 2007.

- (b) International Sovereign relies upon its independent reserve evaluator to assign probable undeveloped reserves to company properties in accordance with criteria as set out in the various governing regulations. Therefore International Sovereign, as such, does not attribute reserves or reserve categories to our own properties. We understand that evaluator looks to 2 criteria: firstly, whether wells have to be drilled to access the assigned reserves, and secondly, whether the size of the remaining capital to be spent to bring the property on to production is significant relative to the underlying property value.

The properties carrying the probable undeveloped reserves are anticipated to be partially developed in calendar 2010 with the drilling of two wells. One of the wells, located in the Medicine River area of Alberta, will be targeting Belly River and Edmonton sand gas potential. The second, located in the Marwayne area of Alberta, will target the Rex formation. These wells will be placed on production given successful results.

Item 5.2 Significant Factors or Uncertainties

Estimates of economically recoverable oil and natural gas reserves (including natural gas liquids) and the future net cash flows there from are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recover and estimates of future net revenues expected there from, may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

The Company's independent engineering firm, PLA, uses a deterministic approach in the estimation of reserves. Reserves are assessed using a discrete value for each parameter in the calculation of reserves, such that the resultant reserve value is consistent with the certainty level associated with the reserve classification. In accordance with NI 51-101, the following definitions are followed by PLA in their analysis:

- Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Item 5.3 Future Development Costs

CAPITAL SCHEDULE
INTERNATIONAL SOVEREIGN ENERGY CORP.
FORECAST PRICES & COSTS - PLA DECEMBER 31, 2009 PRICES

	TOTAL PROVED DEVELOPED RESERVES UNDISCOUNTED M\$	TOTAL PROVED DEVELOPED RESERVES DISCOUNTED @ 10% M\$	TOTAL PROVED + PROBABLE RESERVES DISCOUNTED @ 10% M\$	TOTAL PROVED + PROBABLE RESERVES DISCOUNTED @ 10% M\$
2010	419.6	399.7	2,827.3	2,663.6
2011	0	0	0	0
2012	0	0	0	0
2013	0	0	0	0
2014	54.1	35.3	54.1	35.3
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	117.2	52.1
SUB.	473.7	434.9	2998.6	2751.0
REM.	0	0	0	0
TOTAL	473.7	434.9	2998.6	2751.0

Notes:

1. See NI 51-101 Table 5's for price and cost assumptions
2. Canadian properties prepared with PLA December 31, 2009 Prices and Costs Assumptions
3. Values may not add due to rounding

- The Company intends to finance the future development costs through internally generated cash flow which should have no effect on the disclosed reserves or future net revenue.

PART 6 OTHER OIL AND GAS INFORMATION

Item 6.1 Oil and Gas Properties and Wells

1. Notable Properties

The following eleven properties comprise in excess of 90% of International Sovereign Energy Corp.'s budgeted 2010 lease operating income.

PROPERTY	LOCATION	COUNTRY	ONSHORE/ OFFSHORE
Medicine River	Twp 38-2&3 W5M, Alberta	Canada	Onshore
Wildmere Unit	Twp 47-4 W4M, Alberta	Canada	Onshore
Marwayne	Twp 52-1 W4M, Alberta	Canada	Onshore
Little Bow	Twp 14-20&21 W4M, Alberta	Canada	Onshore
Red Earth	Twp 87-9 W5M, Alberta	Canada	Onshore
Clarke Lake	Block 94-J-10, British Columbia	Canada	Onshore
Swan Hills	Twp 64-10W5M, Alberta	Canada	Onshore
Inga	Twp 85-23W6M, British Columbia	Canada	Onshore
Ft. St. John	Twp 83-18W6M, British Columbia	Canada	Onshore
Berwyn	Twp 82-24W5M, Alberta	Canada	Onshore
Boundary Lake	Twp 83-12W6M, Alberta	Canada	Onshore

2. Well Type Breakdown

Oil and Natural Gas Wells

Province	Producing Wells				Non-Producing Wells			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	107.00	3.98	19.00	7.66	23.00	15.68	12.00	8.52
B.C.	6.00	1.30	5.00	0.79	0.00	0.00	1.00	0.26
Manitoba	2.00	1.20	0.00	0.00	1.00	0.60	0.00	0.00
Total	115.00	6.48	8.45	8.45	24.00	16.28	13.00	8.78

Item 6.2 Properties with no Attributed Reserves

1. International Sovereign has an interest in 13,773 gross hectares (9,142 net hectares) of undeveloped lands in Alberta, British Columbia, and Manitoba Canada.
2. 1,709 gross hectares (1,005 net hectares) of undeveloped lands in Alberta, British Columbia, and Manitoba Canada are expected to expire in calendar 2010.

Item 6.3 Forward Contracts

N/A

Item 6.4 Additional Information Concerning Abandonment and Reclamation Costs

- (a) The best engineering estimates of these costs are used from the experience of the reporting issuer's staff. Should staff in certain circumstances not feel competent to make such estimates, outside consulting advice is sought and used.
- (b) We expect that we will incur such costs for 37.99 net wells.
- (c) The total amount of such costs, net of salvage value is \$962,427 undiscounted, \$287,608 when a 10% discount factor is used.
- (d) Provision has not been made in the engineering reports for an estimated \$550,000 for abandonment and reclamation costs (net of salvage, undiscounted) for properties not evaluated. Such provisions were made in the report for any property evaluated as having reserves.
- (e) It is expected that \$300,000 of abandonment and reclamation costs (net of salvage) will be incurred in the next three financial years, in total.

Item 6.5 Tax Horizon

The income taxes deducted in the calculation of future net revenue above assumes a blow down scenario whereby the Company produces out its existing reserves.

The Company forecasts its tax horizon, assuming current commodity prices, and a continuing business model whereby it reinvests capital at historic capital efficiencies and incurs general and administrative costs and interest costs. Under this scenario, it is expected that taxes will be payable in fiscal 2014 as determined by 3rd party auditors.

Item 6.6 Costs Incurred

1. Capitalized or Expense

During 2009, the Company incurred the following costs:

	2009
	\$
Property Acquisition Costs – Unproved Properties ²	333,574
Property Acquisition Costs – Proved Properties ³	0
Exploration Costs	3,493,378
Development Costs	777,089
Total	4,604,041

Item 6.7 Exploration and Development Activities

1.

	Development Wells		Exploration Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
Oil Wells	0.00	0.00	0.00	0.00	0.00	0.00
Natural Gas Wells	0.00	0.00	1.00	0.96	1.00	0.96
Dry Holes	0.00	0.00	3.00	2.76	3.00	2.76
Total	0.00	0.00	4.00	3.72	4.00	3.72

2. International Sovereign expects to be involved in the following capital projects in 2010:

Marwayne, Canada Attempt optimizations on current wellbores in order to increase the current production and recovery factors of the field.

Medicine River, Canada Drill 4 Edmonton Sands wells pending commodity prices.

²³ Property acquisition costs are net of dispositions and transfers

Item 6.8 Production Estimates

1. Production Estimates for the 2010

(i) Total Proved

Estimated 2010 Production – Total Proved	MBbl	MMcf
Light & Medium Oil	19.0	
Heavy Oil	20.9	
NGL	4.9	
Natural Gas		1099.7

(ii) Total Proved + Probable

Estimated 2010 Production – Total Proved + Probable	MBbl	MMcf
Light & Medium Oil	19.4	
Heavy Oil	25.1	
NGL	5.8	
Natural Gas		1349.8

2. In 2010, the Berwyn and Boundary Lake gas properties are estimated to account for 449.7 MMcf and 308.1 MMcf respectively in the Total Proved estimates & 557.3 MMcf and 369.5 MMcf respectively in the Total Proved + Probable estimates.

Item 6.9 Production History

1. 2009 Production Details

	2009				
	Annual	Q4	Q3	Q2	Q1
Natural Gas (Mcf/d)	4,576	3,693	4,577	5,084	4,965
Crude Oil (Bbls/d)	104	131	74	94	116
NGLs (Bbls/d)	15	14	9	24	13
Total Production (Boe/d)	882	761	847	965	956

2. Important Field Production Volumes for 2009

Important Field	Category	Oil (Bbls)	Gas (Mcf)	NGLs (Bbls)
Marwayne	Heavy Oil	7,746	4,557	-
Wildmere	Heavy Oil	14,474	7,240	-
Berwyn	NA Gas	-	651,449	-
Clarke Lake	NA Gas	-	116,487	-
Boundary Lake	NA Gas	-	694,644	378
Red Earth	Light Oil	8,235	-	-
Medicine River	NA Gas	-	196,028	5,141
Inga	Light Oil	1,963	-	-
Other Areas	Various	4,471	-	-
Company Total		37,883	1,670,405	5,519

3. Average Selling Prices and Netbacks

2010	Q1	Q2	Q3	Q4	Annual
Natural Gas (\$/Mcf)	\$4.70	\$3.32	\$3.05	\$4.41	\$3.84
Crude Oil (\$/Bbl)	\$42.21	\$58.59	\$80.63	\$63.30	\$59.56
NGLs (\$/Bbl)	\$5.97	\$32.95	\$42.58	\$61.96	\$35.68
Totals (\$/Boe)	\$27.71	\$24.28	\$24.07	\$33.44	\$27.56
Royalties (\$/Boe)	\$5.63	\$4.75	(\$4.26)	\$3.92	\$2.71
Operating Costs (\$/Boe)	\$8.57	\$8.50	\$15.16	\$11.53	\$10.92
Netback Received (\$/Boe)	\$13.51	\$11.03	\$13.17	\$17.99	\$13.93

**FORM 51-101F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR**

**This is the form referred to in item 2 of section 2.1 of
National Instrument 51-101 Standards of
Disclosure for Oil and Gas Activities (“NI 51-101”).**

FORM 51-101F2
Report on Reserves Data
By Independent Qualified Reserves Evaluator or Auditor

To the board of directors of International Sovereign Energy Corp. (the "Company"):

1. We have evaluated certain interests of the Company's reserves data as at December 31, 2009. The reserves data consist of the following:
 - a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2009 using forecast prices and costs; and
 - (ii) related estimated future net revenue.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2009, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) ¹			
			Audited	Evaluated	Reviewed	Total
Paddock Lindstrom & Associates Ltd.	February 26, 2010	Canada	Nil	\$26,889,400	Nil	\$26,889,400

¹ This amount should be the amount disclosed by the reporting issuer in its statement of reserves data filed under item 1 of section 2.1 of NI 51-101, as its future net revenue (before deducting future income tax expenses) attributable to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent (required by section 2 of Item 2.2 of Form 51-101F1). The values represented are shown in Canadian dollars.

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Paddock Lindstrom & Associates Ltd.
Calgary, Alberta,

Execution Date: March 3, 2010



Larry K. Lindstrom, P.Eng.
President

**FORM 51-101F3
REPORT OF
MANAGEMENT AND DIRECTORS
ON OIL AND GAS DISCLOSURE**

This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (“NI 51-101”). This form does not apply in British Columbia.

Management of International Sovereign Energy Corp. (“Company”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes oil and gas reserves data, which consist of the following:

1.
 - a. Proved and probable oil and gas reserve quantities estimated as at December 31, 2009 using forecast prices and costs; and
 - b. the related estimate future net revenue and:

An independent qualified reserves evaluator has evaluated the Company’s reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the Board of Directors has:

1. Reviewed the Company’s procedures for providing information to the independent qualified reserves evaluator;
2. Met with the independent qualified reserves evaluator to determine whether any restrictions placed by management affect the ability of the qualified reserves evaluator to report without reservation; and
3. Reviewed the reserves data with management and independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed the information with management. The board of directors has approved:

1. The consent and filing with securities regulatory authorities of the reserves data and other oil and gas information:
2. The filing of the report of the independent qualified reserves evaluator on the reserves data: and

3. The content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Signed: Eugene Hretzay

Eugene Hretzay Director

Signed: John Lokker

John Lokker Director

Signed: Gordon Ashworth

Gordon Ashworth Director

Signed: Sharad Mistry

Sharad Mistry CFO and Interim CEO

Signed: Peter Proszanski

Peter Proszanski Director

Date March 24, 2010