

International Sovereign Energy Corp.

Interim Consolidated Financial Statements

**For the three month period ended March 31,
2009**

(unaudited- See Notice to Reader)

Notice to Reader

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Calgary, Alberta

May 11, 2009

International Sovereign Energy Corp.

Unaudited Consolidated Balance Sheets

As at March 31

	2009	2008
Assets		
<i>Current assets:</i>		
Cash	1,015,574	\$ 1,379,683
Accounts receivable	1,226,086	1,573,217
Advance to operators	7,967	7,967
Prepaid expenses and deposits	174,688	121,439
	2,424,315	3,082,306
Restricted cash (Notes 6)	3,922,587	3,819,628
Property and equipment (Note 3)	30,959,430	30,215,710
	\$ 37,306,332	\$ 37,117,644
Liabilities and Shareholders' Equity		
<i>Current liabilities:</i>		
Accounts payable and accrued liabilities	\$ 7,029,329	\$ 5,733,149
	7,029,329	5,733,149
Letter of guarantee (Notes 6)	2,948,868	2,865,564
Future income tax liability	1,784,544	2,144,427
Asset retirement obligation (Note 4)	2,726,106	2,496,439
	14,488,847	13,239,579
<i>Shareholders' equity:</i>		
Share capital (Note 7)	21,546,430	21,546,430
Warrants (Notes 8)	493,234	493,234
Contributed surplus (Note 10)	1,487,127	1,442,394
Retained (deficit) earnings	(709,306)	396,007
	22,817,485	23,878,065
	\$ 37,306,332	\$ 37,117,644

See accompanying notes to consolidated financial statements.

Commitments and contingencies (Note 14)

Approved by the Board

Signed- "John Lokker"-Director

Signed- "Peter Proszanski" -Director

International Sovereign Energy Corp.

Unaudited Consolidated Statements of Operations, Comprehensive (Loss)/Income and (Deficit)/Retained Earnings

For the three month period ended March 31

	2009	2008
Revenues:		
Petroleum and natural gas revenues	\$ 2,544,921	\$ 3,977,498
Royalties	(517,853)	(821,277)
Other income	13,323	26,951
	2,040,391	3,183,172
Expenses:		
Operating	639,659	676,477
Transportation	147,054	97,626
Depletion, depreciation and accretion	1,946,658	1,012,395
General and administrative	747,128	455,196
Interest	-	43,420
Stock based compensation	44,734	47,328
Unrealized (gain)/loss on foreign exchange	(19,646)	(1,058)
	3,505,587	2,331,384
(Loss) income before income taxes	(1,465,196)	851,788
Income taxes:		
Future income tax expense (recovery)	(359,883)	362,324
Net (loss) income and comprehensive (loss) income	(1,105,313)	489,464
Retained earnings, beginning of period	396,007	4,195,670
Retained (deficit) earnings, end of period	\$ (709,306)	\$ 4,685,134
Earnings (loss) per common share		
Basic	(0.07)	0.04
Diluted	(0.07)	0.04
Weighted average number of common shares		
Basic	16,096,084	13,928,084
Diluted	16,096,084	13,928,084

See accompanying notes to consolidated financial statement.

International Sovereign Energy Corp.

Unaudited Consolidated Statements of Cash Flows

For the three month period ended March 31

	2009	2008
Cash flows from operating activities:		
Net (loss)/income	\$ (1,105,313)	\$ 489,464
Adjustments for:		
Depletion, depreciation and accretion	1,946,658	1,012,395
Unrealized (gain)/loss	(19,646)	(1,058)
Stock based compensation	44,734	47,328
Future income tax recovery	(359,883)	362,324
Cash flow from operations	506,550	1,910,453
Asset retirement costs (Note 4)	(214,373)	(876)
	292,177	1,909,577
Changes in non-cash working capital		
Accounts receivable, prepaid expenses and deposits	240,052	(851,974)
Accounts payable and accrued liabilities	316,272	(751,600)
	848,501	306,003
Financing:		
Operating loan	-	682,000
	-	682,000
Investing:		
Addition to property and equipment	(2,246,339)	(2,038,260)
Proceeds on sale of property and equipment	-	28,001
	(2,246,339)	(2,010,259)
Changes in non-cash working capital		
Accounts receivable and deposits	53,831	(859,903)
Accounts payable and accrued liabilities	979,898	1,338,497
	(1,212,610)	(1,531,665)
Net decrease in cash	(364,109)	(543,662)
Cash beginning of period	1,379,683	247,739
Cash end of period	\$ 1,015,574	\$ (295,923)
Supplementary cash flow information:		
Interest paid	\$ -	\$ 43,420

See accompanying notes to consolidated financial statements.

International Sovereign Energy Corp.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2009

1. NATURE OF BUSINESS

International Sovereign Energy Corp., and its wholly owned subsidiaries, International Sovereign Energy Corp SA, and Bellwether International Inc. (“BII”), (collectively the “Company”), are in the business of exploration for and development of petroleum and gas interests. The Company is active in the exploration and development of hydrocarbon reserves in Western Canada. The Company is evaluating its international activities and is looking to reduce its obligation and underlying interests in these international places on a go forward basis. The Company intends to focus on domestic opportunities.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim unaudited consolidated financial statements of international Sovereign Energy Corp. have been prepared in accordance with the Canadian generally accepted accounting principles, consistent with accounting policies disclosed in the Company’s audited consolidated financial statements for the years ended with December 31, 2008 and 2007. The note disclosure requirements for annual financial statements provide additional disclosures than required for interim financial statements. Accordingly, the financial statements and notes thereto should be read in conjunction with the Company’s Annual Report for the year ended December 31, 2008.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the financial position of the company as of March 31, 2009.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions have been eliminated on consolidation.

Stock-based compensation plan

The Company uses the fair-value based method of accounting for stock options and recognizes stock compensation expense based on the estimated fair value of the option on the date of grant, which is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as stock compensation expense and contributed surplus. The contributed surplus balance is reduced when the options are exercised and the amount initially recorded as contributed surplus is credited to share capital.

New accounting policies

Goodwill and Other Intangible Assets

On January 1 2009, the Company adopted the Section 3064 “Goodwill and Other Intangible Assets”. The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of the old Section 3062 “Goodwill and Other Intangible Assets”. The adoption of this guideline does not have any material effect on the Company’s consolidated financial statements.

International Sovereign Energy Corp.
Notes to Unaudited Consolidated Financial Statements
For the Three Months Ended March 31, 2009

3. PROPERTY AND EQUIPMENT

	March 31 2009	December 31, 2008
	\$	\$
Petroleum and natural gas properties		
- Canada	52,249,362	49,604,785
- International	12,366,754	12,366,754
Furniture and equipment	315,608	314,014
	64,931,725	62,285,553
Accumulated depletion and depreciation	23,654,984	21,752,533
Provision for impairment of international assets	10,317,310	10,317,310
	30,959,430	30,215,710

Costs of \$2,937,927 (March 31, 2008 – \$4,524,976) related to undeveloped properties in Canada and \$2,049,444 (March 31, 2008 – \$6,507,483) of deferred expenditures related to international projects have been excluded from depletion during the period ended March 31, 2009.

The net book value of international expenditures in Pakistan:

	March 31 2009	December 31 2008
	\$	\$
Pakistan	2,049,444	2,049,444
	2,049,444	2,049,444

4. ASSET RETIREMENT OBLIGATIONS

	March 31 2009	December 31 2008
	\$	\$
Asset retirement obligation, beginning of year	2,496,439	1,108,664
Increase in estimated retirement obligations	370,166	1,452,347
Liabilities acquired	29,667	77,041
Retirement obligations settled	(214,373)	(224,612)
Accretion expense	44,207	82,999
Asset retirement obligation, end of year	2,726,106	2,496,439

International Sovereign Energy Corp.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2009

5. OPERATING LOAN

The Company has a revolving line of credit to a maximum of \$10,000,000 (December 31 2008- \$10,000,000). The facility is subject to a review scheduled for May 31, 2009. The Company is covenanted to maintain a working capital ratio of 1:1, defined current assets, including undrawn availability, to current liabilities. 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. There was no bank debt outstanding as at March 31, 2009 and March 31, 2008 \$2,849,000).

6. RESTRICTED CASH, LETTER OF GUARANTEE.

The restricted funds CAD\$2,948,868 (US\$2,340,000) acquired through acquisition of BII, provide a performance guarantee of US\$2,340,000 to Petroleos del Ecuador under the terms and conditions of the Charapa Contract.

In 2008, the Company issued an two unconditional, irrevocable bank guarantee for US\$450,000 (CAD\$567,090) and PKR25,966,080 (CAD\$406,629) in favour of Mari Gas Company Limited with respect to Sujawal and Sukkar blocks respectively, in relation to petroleum exploration, development and production in Pakistan, to guarantee the Company's financial obligations. The guarantee will be reduced by an amount proportionate to 50% of the discharge of minimum work, and expires for Sukkar Block July 20, 2009 and for Sujawal block October 7, 2009.

7. SHARE CAPITAL

Authorized

- Unlimited number of Class A common voting shares
- Unlimited number of Class B common non-voting shares
- Unlimited number of Class A preferred voting, 7%
- Non-cumulative, redeemable shares

Issued

Class A common shares

	Number of Shares	Value \$
Balance at March 31, 2009 and December 31, 2008	16,096,084	\$ 21,546,430

8. WARRANTS

	Number of Warrants	Weighted Average Exercise Price \$	Expiry date
Issued with private placement	330,644	3.25	November 30, 2011
Issued with private placement	1,084,000	1.50	September 18, 2009
Agents warrants, private placement	212,000	1.25	September 18, 2010
Total warrants outstanding	1,626,644	1.82	

International Sovereign Energy Corp.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2009

9. STOCK OPTIONS

Under the Company's stock option plan, the Company may grant options to its directors, officers and key employees to purchase Class A common shares ("Common Shares") from the Company at a fixed price not less than the fair market value of the stock on the day preceding the grant date. The Company has reserved 1,400,000 common shares for the grant of options. The options vest equally over three years. The option's maximum term is five years.

The following table summarizes outstanding stock options at March 31, 2008:

	Number of Options	Weighted average Exercise price
Balance as at March 31, 2009 and at December 31, 2008	630,000	\$ 1.31
Exercisable, March 31, 2009	50,000	\$ 2.00

10. CONTRIBUTED SURPLUS

	March 31, 2009	December 31, 2008
Opening balance	\$ 1,442,394	\$ 1,174,293
Stock based compensation expense	44,733	199,898
Agent warrant expense	-	100,914
Extension of expiry date of warrants issued with private placement	-	(32,711)
Ending balance	\$ 1,487,127	\$ 1,442,394

11. FINANCIAL INSTRUMENTS

The Company is subject to normal industry credit risk with its accounts receivable with customers and joint venture partners. The Company mitigates these risks by continually monitoring credit worthiness of counterparties.

(i) Commodity price risk

The Company is exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids. Commodity prices are affected by many factors including supply, demand and the Canadian to US dollar exchange rate.

The Company has no financial or fixed price commodity contracts in place at March 31, 2009 and 2008.

(i) Interest rate risk

The Company's operating loan (Note 5) is exposed to fluctuations in short-term Canadian interest rates. The Company has no interest rate risk at March 31, 2009.

(ii) Foreign currency exchange rate risk

At March 31, 2009, the Company had PKR 25,966,080 (CAD\$406,629) of cash held in a bank account denominated in Pakistan rupees, and US\$2,340,000 (CAD\$2,948,868), and US\$450,000 (CAD\$567,090) of cash was held in a bank account denominated in United States dollars. These amounts are in restricted cash account to support bank guarantees and performance bonds. The Company has no net exposure risk relating to these amounts. The Company had no outstanding forward exchange contracts in place at March 31, 2009.

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Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2009

11. FINANCIAL INSTRUMENTS (CON'T)

(iii) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the natural gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. The Company has no receivables that it considers as being past due.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 5 to the unaudited interim consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at March 31, 2009, the Company has working capital deficit of \$4,605,014 and access to a credit facility of \$10 million (Note 5).

Fair value of financial instruments

The fair values of financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. Carrying value of restricted cash and guarantee also approximates its fair value as it is translated at the foreign exchange rate prevailing at end of the period.

12. CAPITAL MANAGEMENT

The Company's objective is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

Shareholders' equity is defined as share capital plus contributed surplus plus warrant plus retained earnings, less any deficit. The capital structure of the Company is as follows

	March 31, 2009	December 31, 2008
Total shareholders' equity	\$ 22,817,485	\$ 23,878,065
Working capital deficit	4,605,014	2,650,843
Revolving operating facility	-	-
Total Capital	\$ 27,422,499	\$ 26,528,908

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other factors that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

The Company's capital structure is not subject to external restrictions; however, the Company's operating facility (Note 5) is determined by the lender and based on the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves. There have been no changes in the Company's approach to capital management.

International Sovereign Energy Corp.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended March 31, 2009

13. SEGMENTED INFORMATION

The Company's core area of operation is in Canada.

Period end March 31	Canada		International	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue net of Royalties	2,027,068	3,156,220	-	-
Property Plant and Equipment	28,909,986	28,860,257	2,049,444	6,507,483

14. COMMITMENTS AND CONTINGENCIES

The Company is committed under an operating lease which expires on August 31, 2011. The minimum annual payment required on the office lease for the next 3 years is \$240,000.

The Company also has a standby letter of credit of \$7,500 (March 31, 2008- \$7,500) to maintain its status as a licensed well operator in the province of British Columbia.

As a part of its ongoing operations, the Company may be involved in potential litigation or claims associated with its international operations. Management is of the opinion that there will be no material impact on the financial position, results of operations or liquidity of the Company, as a result of such claims.