

**INTERNATIONAL SOVEREIGN ENERGY  
CORP**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE THREE MONTH PERIODS ENDED  
March 31, 2009**

**May 11, 2009**

INTERNATIONAL SOVEREIGN ENERGY CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE  
COMPANY  
FOR THE THREE MONTH PERIODS ENDED MARCH, 2009

*The following is management's discussion and analysis ("MD&A") of International Sovereign Energy Corp.'s (the "Company" or "ISR") operating and financial results for the three month period ended March 31, 2009 as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's unaudited consolidated financial statements and the accompanying notes for the periods ended March 31, 2009 and 2008. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This MD&A is dated May 11, 2009. Disclosure contained in this document is current to that date, unless otherwise noted. All amounts in this MD&A are in Canadian dollars, except where otherwise stated. Additional information relating to the Company is available on [www.sedar.com](http://www.sedar.com).*

### **Forward-Looking Information**

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

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

### **Overall Performance**

During the first quarter of 2009, revenues were \$2,544,921, a decrease of 36% from the 2008 level of \$3,977,498. Although average production over this period increased from 794 Boe/d in the first quarter of 2008 to 1,020 Boe/d in first quarter of 2009, the decrease in revenue was due to substantial drop in energy prices. Oil prices received, decreased from an average of \$80.08/bbl in Q1 2008 to \$44.86/bbl in Q1 2009. Average gas prices received, decreased from \$7.41/Mcf in the first quarter of 2008, compared to \$4.42/Mcf average price received in the corresponding period of 2009.

The Company exited the quarter at 937 Boe/d. This drop from the first two months of the quarter was mainly due to required downtime within the Berwyn field for minor workovers. Average oil production for the quarter was 109 Boe/d as compared to 208 Boe/d in the first quarter of 2008. During the same period average gas production increased from 3,286 Mcf/d at March 31, 2008 to 5,280 Mcf/d at March 31, 2009 (from 548 Boe/d to 880 Boe/d, an increase of 332 Boe/d). The overall increase in gas production can be attributed to primarily to Boundary Lake and Berwyn areas.

## Summary

In the three months ended March 31, 2009, the Company continued a viable operation that is free of debt, and meeting its financial obligations. Despite a weakening economy and decreased commodity prices, the Company continues to maintain a healthy balance sheet as at the first quarter of 2009.

## Overview

	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
<b>Revenues:</b>			
Petroleum and Natural gas sales	2,544,921	3,977,498	(36)
Royalties	(517,853)	(821,277)	(37)
Lease operating costs	(639,659)	(676,477)	(5)
Transportation	(147,054)	(97,626)	51
<b>Operating netback</b>			
Other income	13,323	26,951	(51)
Interest	-	(43,420)	(100)
General and administrative	(747,128)	(455,196)	64
<b>Funds from operations</b>			
Unrealized loss/gain on exchange	19,646	1,058	1,757
Depletion, depreciation and accretion	(1,946,658)	(1,012,395)	92
Stock based compensation expense	(44,734)	(47,328)	(5)
<b>Income before taxes</b>			
Future income tax (expense), recovery	(1,465,196)	851,788	(272)
	359,883	(362,324)	(199)
<b>Net income (loss)</b>	<b>(1,105,313)</b>	489,464	(326)
Funds from operations per share:			
Basic and diluted (\$)	0.03	0.14	(79)
Net income (loss) per share			
Basic (\$)	(0.07)	0.04	(316)
Diluted (\$)	(0.07)	0.04	(316)
Average number of shares outstanding			
Basic	16,096,084	13,928,084	4
Diluted	16,096,084	13,928,084	4

- (1) *Funds from operations is a non-GAAP measure that does not have a standardized meaning as prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other oil and gas companies. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.*
- (2) *Operating netback is a non GAAP measure that does not have a standardized meaning as prescribed by GAAP. We consider it an important measure as it demonstrates our ability to generate the cash flow necessary to fund future growth through capital investment.*
- (3) *Definitions:  
Boe/d: barrel of oil equivalent per day  
bopd: barrel of oil per day  
Mcf/d: Thousand cubic feet per day  
MMcf/d: Million cubic feet per day  
bbl: barrel*

**Funds from Operations and Net Earnings (Loss)**

	Three Months Ended March 31		
	2009	2008	Change
	\$	\$	%
Funds from operations	<b>506,550</b>	1,910,453	(73)
Per share:			
Basic and diluted (\$)	<b>0.03</b>	0.14	(79)

Funds from operations for the three months ended March 31, 2009 totalled \$506,550 or \$0.03 per share, compared to \$1,910,453 for the same period in 2008. Despite increases in production revenues declines due to drop in energy prices, resulting in a reduction in cash flow from operations.

	Three Months Ended March 31		
	2009	2008	Change
	\$	\$	%
Net income (loss)	<b>(1,105,313)</b>	489,464	NA
Per share:			
Basic and diluted (\$)	<b>(0.07)</b>	0.04	NA

Net loss for the three month period ended March 31, 2009 was \$1,105,313 or \$0.07 per share compared to an income of \$489,464 or \$0.04 per share, for the same period in 2008. The loss in the quarter was a result of the decrease in energy prices an increase in operating costs due to the increase in production volumes; an increase in depreciation, depletion and accretion charge and an increase in general administration costs.

**Petroleum and natural gas sales**

Sales volumes		Three Months Ended March 31		
		2009	2008	Change
				%
Natural gas	<i>Mcf/d</i>	<b>5,280</b>	3,286	61
Crude oil	<i>bbl/d</i>	<b>109</b>	208	(48)
Natural gas liquids	<i>bbl/d</i>	<b>31</b>	38	(17)
Combined (6:1)	<i>Boe/d</i>	<b>1,020</b>	794	29

Sales volumes, on a Boe basis, averaged 1,020 Boe per day during the first quarter of 2009, up 29% from the 794 Boe per day average in the first quarter of 2008. The increase in sales volumes for natural gas is primarily the result of the new production coming online from Boundary Lake and Berwyn areas. The decrease in oil production was because of watering out of Marwayne oil field. The actual production volume for the month of March was approximately 937 Boe/d.

Natural gas sales volumes increased 61% during the first quarter 2009 as compared to the comparative period in 2008.

Revenues	Three Months Ended March 31		
	2009	2008	Change
	\$	\$	%
Natural gas	<b>2,098,478</b>	2,215,396	(5)
Crude oil	<b>439,464</b>	1,519,241	(71)
Natural gas liquids	<b>6,979</b>	242,861	(97)
Total oil and gas	<b>2,544,921</b>	3,977,498	(36)

Gross revenue from the sale of petroleum and natural gas in the first quarter of 2009 totalled \$2,544,921 down by 36% from the same quarter last year. Overall natural gas sales were \$2,098,478 for the three months ended March 31, 2009, 5% lower than the \$2,215,396 received in the first quarter of 2008. However, the natural gas prices received dropped from an average of \$7.41 in 2008 to \$4.42 in 2009 per Mcf, a drop of 41%. Natural gas sales volumes increased 61% in 2009 over the comparable 2008.

Average Sales Prices		Three Months Ended		
		March 31		
		2009	2008	Change %
Natural gas	<i>\$/Mcf</i>	4.42	7.41	(41)
Crude oil	<i>\$/bbl</i>	44.86	80.08	(44)
Natural gas liquids	<i>\$/bbl</i>	2.47	70.42	(96)
Combined (6:1)	<i>\$/Boe</i>	27.71	55.66	(50)

Benchmark Pricing		Three Months Ended		
		March 31		
		2009	2008	Change %
AECO natural gas (Daily Index)	<i>Cdn\$/Mcf</i>	4.69	7.53	(38.0)
AECO natural gas (Monthly spot)	<i>Cdn\$/Mcf</i>	5.34	6.76	(21.0)
WTI crude oil	<i>US\$/bbl</i>	43.08	97.90	(56.0)
Edmonton par crude oil	<i>Cdn\$/bbl</i>	50.09	98.20	(49.0)
Lloyd heavy crude oil	<i>Cdn\$/bbl</i>	35.72	42.03	(15.0)
Exchange rate	<i>US\$/Cdn\$</i>	0.8030	0.9960	(19.4)

The overall average price received from the sale of oil and gas products in the first quarter of 2009 was down 50%, to \$27.71/Boe, from the \$55.66/Boe received during the first quarter last year. Oil prices have shown some signs of recovery, whilst natural gas prices have weakened in the first quarter of 2009. Given the current economic climate, surplus of natural gas in the North American market, the Company anticipates depressed price for gas for the balance of 2009.

Royalties		Three Months Ended		
		March 31		
		2009	2008	Change %
		\$	\$	%
Crown		483,647	644,062	(25)
Freehold		4,979	124,400	(96)
Gross overriding		29,227	52,815	(45)
Total		517,853	821,277	(37)
As % of oil and gas revenues		20.35	20.65	(1)

Royalties decreased in the first quarter of 2009, totalling \$517,853 versus \$821,277 in the same period of 2008, a 37% decrease over the corresponding period. The significant decrease in royalties was due to decreased energy prices for oil and natural gas liquids during the quarter of March 31, 2009 as compared to the quarter of March 31, 2008.

Operating Costs		Three Months Ended		
		March 31		
		2009	2008	Change %
		\$	\$	%
Operating costs		639,659	676,477	(5)
Per Boe (\$)		6.97	9.36	(26)

Operating costs decreased 5% from \$676,477 in the first quarter last year to \$639,659 in the first quarter of 2009. Although there was a decrease in revenues, production increased, Overall operating costs per unit were slightly lower in the first quarter this year, impacted by the lower operating cost properties in the first three months of 2009. The new gas properties that came online in the

later part of 2008 have low operating costs. On a Boe basis, lease operating costs decreased 26% in the three months ended March 31, 2009 to \$6.97 per Boe from \$9.36 per Boe in the same period of 2008.

<b>Transportation</b>	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
Transportation	<b>147,054</b>	97,626	51
Per Boe (\$)	<b>1.60</b>	1.35	19

Transportation costs for the three months ended March 31, 2009 amounted to \$147,054 with the transportation costs for the comparative period in 2008 amounting to \$97,626. This was an increase of 51% over the relevant periods. On a Boe basis, transportation costs increased 19% in the three months ended March 31, 2009 to \$1.60 per Boe from \$1.35 per Boe in the same period of 2008. The increase in transportation costs was primarily due to the significant increase in gas production in areas where third party gathering fees are applicable on a \$/Mcf basis.

<b>Operating Netback (\$/Boe)</b>	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
Petroleum and natural gas sales	<b>2,544,921</b>	3,977,498	(36)
Royalties	<b>(517,853)</b>	(821,277)	(37)
Lease operating costs	<b>(639,659)</b>	(676,477)	(5)
Transportation	<b>(147,054)</b>	(97,626)	51
Operating netback	<b>1,240,355</b>	2,382,118	(48)
Per Boe (\$)	<b>13.51</b>	32.97	(59)

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

Operating netbacks were lower for the three months ended March 31, 2009, compared to the prior year period, due mainly to the significant decrease in commodity prices.

<b>General and Administrative (“G&amp;A”)</b>	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
G&A	<b>747,128</b>	863,371	(13)
G&A Capitalized	-	(408,175)	
<b>General and Administrative</b>	<b>747,128</b>	455,196	64
Per Boe (\$)	<b>8.14</b>	6.30	29

General and administrative (“G&A”) expenses increased 64% in the first quarter of this year to \$747,128 from \$455,196 in the same period in 2008. However, G&A before capitalization decreased by 13%, or by \$5.65 per Boe. In Q3 2008 the Company decided to take a conservative approach by not capitalizing any of the G&A expenses. The Company continues to monitor and control these expenses.

#### **Stock Based Compensation and Other Stock Based Compensation**

Stock-based compensation expense, net of capitalized stock-based compensation, for the three months ended March 31, 2009 was \$44,734 as compared to stock-based compensation expense of \$47,328 for 2008.

Depletion, Depreciation and Accretion	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
Depletion	1,898,624	990,557	92
Depreciation	3,827	3,324	15
Accretion of asset retirement obligations	44,207	18,514	139
Total	1,946,658	1,012,395	92
Per Boe (\$)	21.20	14.01	51

Depletion, depreciation and accretion expense increased 92% in the first quarter of 2009 to \$1,946,658 from \$1,012,395 in the same period of 2008. The increase is due primarily to increased production, significant reduction in the Company's oil reserves in due to the watering out of the Marwyane property in 2008, and technical revisions of the Company's overall proved reserve base. On a Boe basis depletion, depreciation and accretion expense increased by 51% to \$21.20/Boe compared to \$14.01/Boe in the same period of 2008.

### Income Taxes

The future income tax provision for the three months ended March 31, 2009 was a recovery of \$359,883, compared to a tax expense of \$362,324 in the comparative period of 2008.

Income taxes are comprised of two components: current and future income taxes. The expected 2009 income tax rate as a percentage of pre-tax income is 25%.

### Capital Expenditures

During the first quarter ended March 31, 2009, \$2,246,339 (2008 - \$2,038,260) was expended on capital additions as summarized below:

Capital Expenditures	Three Months Ended		
	March 31		
	2009	2008	Change
	\$	\$	%
Land and acquisitions	42,174	430,926	(90)
Geological and geophysical	619,026	30,745	1,913
Drilling and completion	1,527,495	1,541,842	(1)
Facilities and equipment	56,050	33,257	69
Furniture, fittings and fixtures	1,594	1,491	7
Total capital expenditures	2,246,339	2,038,260	12

In the quarter the Company drilled 2 wells, one of which was deemed a marginal success. ISR has budgeted approximately \$7 million in capital expenditures for balance of 2009 and expects to rely on internally generated cash flows and available lines of credit to fund its capital program. The Company had established and has available an operating line of credit of \$10 million. However, capital expenditures will be reviewed in light of current energy prices, the surplus of natural gas inventories in North America and general economic conditions.

### Liquidity and Capital Resources

At March 31, 2009 the Company's market value of common shares was \$12,072,063 based on the closing price of \$0.75 per share on the 16,096,084 shares outstanding. This compares to a market value of \$10,167,502 at the end of March 31, 2008 based on the closing price of \$0.73 per share and 13,928,084 shares outstanding. Funds from operations for three month period were \$506,550 down 73% from \$1,910,453 at the end of the corresponding period of 2008. The funds from operations on a per share basis decreased from \$0.14 per basic weighted average share in 2008 to \$0.03 per basic weighted average share in 2009. This decrease of 79% is attributable to decreased energy prices in 2009 from the corresponding period in 2008.

Funds from operations details are provided to assist investors in determining the ability of the Company to generate cash from operations. Funds from operations are calculated as being net earnings adjusted for items that do not affect cash. This measure does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies.

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

ISR has budgeted approximately \$7 million in capital expenditures for the balance of 2009 and expects to rely on internally generated cash flows and available lines of credit to fund its capital program. The Company had established and has available an operating line of credit of \$10 million. However the capital expenditure will be reviewed in light of the current energy prices, surplus of natural gas inventories in North America and general economic conditions.

### **Contractual Obligations**

As part of normal operations, the Company is party to various financial guarantees, letters of credit and other contractual commitments. Oil sales from Company production are contracted on a month-to-month evergreen basis and gas sales from Company production are contracted on an annual basis commencing each November. Senior executive officers are each party to a separate employment services agreement with the Company. The Company also has a letter of credit outstanding totalling \$7,500 to maintain its status as a licensed well operator in the province of British Columbia.

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

### **Disclosure Controls and Procedures**

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

### **Internal Controls over Financial Reporting**

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

Although management does not believe that any significant deficiencies exist in the Company's internal controls over financial reporting at March 31, 2009 that would result in a material misstatement of the Company's financial reporting, ISR continues to evaluate its processes and internal controls on an ongoing basis.

### **Business Risks**

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

## Safety and Environmental

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

## Critical Accounting Estimates

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

The CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the start of 2011. The Company is in the process of:

- Developing a plan to assess the impact of convergence of Canadian GAAP and IFRS.
- Identifying appropriate training.
- Identifying the relevant systems upgrade requirements
- Implementation timetable to commence dual reporting for 2010 ensuring the Company's ability to report under IFRS in 2011.

The table below outlines the Company's approach to implementing IFRS.

Activity	Action plan
<b>Financial Statement preparation:</b>	
Identify differences in Canadian GAAP and IFRS accounting policies Identify IFRS accounting policies for ISR  Develop a financial statements based on IFRS Quantify effects of change in initial IFRS disclosure and 2010 financial statements	Document the differences  Executive management sign off on all key IFRS accounting policies Develop draft financial statement format
<b>Education</b>	
Define and introduce appropriate level of IFRS expertise for the following groups: Accounting and financial reporting Executive management Audit Committee Board of Directors	Controller and CFO to attend industry specific training Identify appropriate level of information for management, and directors of the Company.
<b>Management Information Systems</b>	
Review all business processes and ensure systems are IFRS compliant Software changes and upgrades Systems for gathering data for IFRS disclosure	Systems upgrade will be available by fall of 2009
<b>Control Environment</b>	
For all accounting policies identified assess the implication and effectiveness of internal controls	All key controls, design and effectiveness to be assessed in conjunction with identifying the differences and accounting policies adopted.

## Depletion

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

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

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

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

#### *Future Income Taxes*

The Company accounts for future income taxes using the liability method. Future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax bases. Future income tax expense is computed based on the change during the year in the future tax assets and liabilities. Future income tax expense is computed based on the change during the year in the future tax assets and liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary tax differences are expected to reverse effects of changes in tax laws, and tax rates are recognized when enacted. For the three month period ended March 31, 2009 this future income tax recovery was calculated to be \$359,883 compared to a tax expense of \$362,324 at the end of the corresponding period in 2008.

#### *Reserves Disclosure*

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

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

## **Outlook**

The Company's management has been immersed in the review of the assets of the Company and appraising the opportunities to enhance the financial performance from those assets. The volatility of the oil and gas markets affects all producers and the higher prices have benefited the Company in the past. However, the current decline in energy prices coupled with anemic demand and oversupply of natural gas impacted the Company's performance in the first quarter. There is much discussion on the pricing levels of oil and gas and it is difficult for the Company to project where these will be at any point in time. However, due to our strong balance sheet we see opportunities to expand our presence in the Canadian market place through a selective program of acquisition of oil and gas producing properties under acceptable financial conditions, which exhibit significant future development opportunities. Through such a program, the Company will increase production, revenue and profit streams and be able to generate the funds to make further acquisitions as those become available.

The Company will continue to review its capital expenditure program in light of the current economic climate. Since the present portfolio is approximately 80% gas, the Company will focus on opportunities that increase the oil component because we feel that the present outlook for near term oil prices is more favorable than natural gas prices.

### *Domestic*

At Berwyn, Alberta, the Company recently drilled the Berwyn 7-11 well, which came online during late October, 2008 at a rate of 0.750MMCFD (125 BOED). Currently the well is producing 1.25MMCFD (208 BOED). The Berwyn area continues to be a major focal point of the Company, and it will continue to develop the field.

### *International*

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

### *Pakistan*

The Company signed two farm-in agreements with Mari Gas Company ("MGCL") of Pakistan the second largest producer of gas in Pakistan. The Company's direct working interest in each block is fifteen percent (15%) with all the work and management performed by a local seasoned and well established gas producer. The farm-in agreement provides that the Company be responsible for 25% of the development costs of the first three wells in the Sukkur Block. Pakistan Government approval for development of the Sukkur Block has been obtained and approval of the Sujawal Block is pending.

The Sukkur Joint Venture ("SJV") is comprised of MGCL, the operator, with a 50% working interest ("WI"), Petroleum Exploration Limited, a Pakistani exploration and production company with a 35% WI and the Company, as mentioned above, with a 15% WI. The SJV is committed to drilling 3 wells within the Sukkur Block.

Drilling, completion, and stimulation of the first well, Koonj Well #1A, proved to be a success. The well was tested at gross rates of 15MMCFD and is expected to have commercial sales in the latter half of 2009. The second well, Bodla Bahar, drilled in late 2008, proved to be a commercial failure. Spudding of Indus 1-B, which seems to have significant potential based on seismic, has been pushed back for 18 months while the partners conduct a post-mortem on the failure of Bodla Bahar.

### *Ecuador*

Management recently met with PetroEcuador officials with a view to determine if it fits the Company's risk profile. The Charapa Concession is currently being analyzed in detail and a work plan has been developed, in conjunction with the local authorities, to identify the method to achieve the maximum returns for both the Company and for Ecuador. This project is 100% owned by the Company and, as such, the Company is responsible for 100% of the costs and the attendant risks with, what is in effect, an under developed property. All environmental permits have been received.

## Quarterly Financial Summary

	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Petroleum and natural gas sales</b>	2,544,921	3,540,511	5,563,108	5,389,527	3,977,498	2,507,173	2,487,541	2,121,375
<b>Royalties</b>	(517,853)	(1,148,280)	(929,812)	(1,074,952)	(821,277)	(532,693)	(446,289)	(439,153)
<b>Operating expenses</b>	(786,713)	(533,086)	(1,222,363)	(758,516)	(774,104)	(798,683)	(848,019)	(954,268)
<b>Operating netback (per Boe)</b>	4.44	19	38	46	34	20	19	17
<b>Funds from operations</b>	506,550	951,257	2,849,349	1,238,089	1,910,453	717,188	629,420	250,530
<b>Per share – basic</b>	0.03	0.07	0.20	0.09	0.14	0.05	0.05	0.02
<b>Per share – diluted</b>	0.03	0.07	0.18	0.09	0.14	0.05	0.05	0.02
<b>Net income (loss)</b>								
<b>Per share – basic</b>	(0.07)	(0.12)	0.08	(0.27)	0.04	(0.01)	(0.01)	(0.01)
<b>Per share – diluted</b>	(0.07)	(0.12)	0.07	(0.27)	0.04	(0.01)	(0.01)	(0.01)
<b>Capital expenditures</b>	2,246,339	3,687,993	1,146,406	1,099,304	2,038,260	1,656,200	1,390,345	1,329,350

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