

International Sovereign Energy Corp.

**Interim Consolidated Financial Statements**

**For the three and nine months ended September 30, 2009**

**(unaudited- See Notice to Reader)**

**Notice to Reader**

The accompanying unaudited interim consolidated 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**

**November 11, 2009**

# International Sovereign Energy Corp.

## Consolidated Balance Sheets

<i>(unaudited)</i>	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
<i>Current</i>		
Cash	\$ -	\$ 1,379,683
Accounts receivable	723,295	1,581,184
Prepaid expenses and deposits	255,965	121,439
	979,260	3,082,306
Restricted cash (Note 6)	2,843,651	3,819,628
Property and equipment (Note 3)	25,082,468	30,215,710
	\$ 28,905,379	\$ 37,117,644
<b>LIABILITIES</b>		
<i>Current</i>		
Accounts payable and accrued liabilities	\$ 2,981,105	\$ 5,733,149
Operating loan (Note 5)	2,076,296	-
	5,057,401	5,733,149
Letter of guarantee (Note 6)	2,508,948	2,865,564
Future income tax liability	544,613	2,144,427
Asset retirement obligations (Note 4)	1,867,323	2,496,439
	9,978,285	13,239,579
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	21,546,430	21,546,430
Warrants (Note 8)	32,711	493,234
Contributed surplus (Note 10)	2,180,917	1,442,394
Retained earnings (deficit)	(4,832,964)	396,007
	18,927,094	23,878,065
	\$ 28,905,379	\$ 37,117,644

See accompanying notes to the interim consolidated financial statements

Commitments and contingencies (Note 15)

# International Sovereign Energy Corp.

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

<i>(unaudited)</i>	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>REVENUES</b>				
Petroleum and natural gas	\$ 1,874,929	\$ 5,563,108	\$ 6,528,200	\$ 14,930,133
Royalties	331,532	(929,812)	(598,249)	(2,826,041)
Other income	-	11,592	14,235	59,604
	<b>2,206,461</b>	4,644,888	<b>5,944,186</b>	12,163,696
<b>EXPENSES</b>				
Operating	958,498	959,553	2,177,338	2,279,416
Transportation	223,074	262,809	529,349	475,565
General and administrative	334,006	546,638	1,440,293	3,297,258
Stock-based compensation (Note 10)	188,533	65,241	278,000	159,897
Interest	13,863	26,539	20,222	113,563
Depletion, depreciation and accretion	2,533,345	1,362,863	6,470,471	3,460,627
Pakistan asset impairment and related obligation (Note 3)	903,233	-	1,857,297	-
Impairment of international assets	-	-	-	5,089,843
Unrealized loss on foreign exchange	-	3,849	-	6,714
	<b>5,154,552</b>	3,227,492	<b>12,772,970</b>	14,882,883
Earnings (loss) before income taxes	<b>(2,948,091)</b>	1,417,396	<b>(6,828,784)</b>	(2,719,187)
Future income tax (recovery)	<b>(755,692)</b>	267,461	<b>(1,599,813)</b>	(578,604)
Earnings (loss) and comprehensive income (loss)	<b>(2,192,399)</b>	1,149,935	<b>(5,228,971)</b>	(2,140,583)
Retained earnings (deficit), beginning of period	<b>(2,640,565)</b>	905,152	<b>396,007</b>	4,195,670
Retained earnings (deficit), end of period	<b>\$ (4,832,964)</b>	\$ 2,055,087	<b>\$ (4,832,964)</b>	\$ 2,055,087
Earnings (loss) per common share				
Basic	\$ (0.14)	\$ 0.08	\$ (0.32)	\$ (0.15)
Diluted	\$ (0.14)	\$ 0.07	\$ (0.32)	\$ (0.14)
Weighted average number of common shares				
Basic	16,096,084	14,210,867	16,096,084	14,023,033
Diluted	16,096,084	15,416,192	16,096,084	14,984,575

See accompanying notes to the interim consolidated financial statements

# International Sovereign Energy Corp.

## Consolidated Statements of Cash Flows

<i>(unaudited)</i>	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>OPERATING</b>				
Earnings (loss)	\$ (2,192,399)	\$ 1,149,935	\$ (5,228,971)	\$ (2,140,583)
Items not involving cash:				
Depletion, depreciation and accretion	2,533,345	1,362,863	6,470,471	3,460,627
Stock-based compensation	188,533	65,241	278,000	159,897
Impairment of international assets	-	-	-	5,089,843
Future income tax (recovery)	(755,692)	267,461	(1,599,813)	(578,604)
Abandonment expenditures	(65,967)	(1,240)	(789,838)	(14,416)
	(292,180)	2,844,260	(870,151)	5,976,764
Change in non-cash capital (Note 11)	709,646	732,751	1,406,707	2,381,262
	417,466	3,577,011	536,556	8,358,026
<b>FINANCING</b>				
Operating loan	546,993	(3,059,000)	2,076,296	(2,167,000)
Issuance of common shares	-	2,363,105	-	2,363,105
	546,993	(695,895)	2,076,296	196,105
<b>INVESTING</b>				
Property and equipment expenditures	(785,592)	(1,146,406)	(3,225,956)	(4,283,970)
Property and equipment disposals	-	-	-	28,001
Restricted cash, letter of guarantee	619,364	-	619,364	(418,017)
Change in non-cash capital (Note 11)	(798,231)	226,673	(1,385,943)	(2,179,783)
	(964,459)	(919,733)	(3,992,535)	(6,853,769)
<b>Change in cash</b>	-	1,961,383	(1,379,683)	1,700,362
<b>Cash, beginning of period</b>	-	(13,282)	1,379,683	247,739
<b>Cash, end of period</b>	\$ -	\$ 1,948,101	\$ -	\$ 1,948,101
<b>Supplementary cash flow information:</b>				
Interest earned	\$ -	\$ 11,592	\$ 14,235	\$ 59,604
Interest paid	\$ 13,863	\$ 26,539	\$ 20,222	\$ 113,563

See accompanying notes to the interim consolidated financial statements

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements  
For the nine months ended September 30, 2009

***(unaudited)***

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## **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

International Sovereign Energy Corp. ("ISR"), 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.

The accompanying unaudited interim consolidated financial statements of International Sovereign Energy Corp. have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), consistent with accounting policies disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2008 except for as discussed in Note 2. The disclosure requirements for annual financial statements provide additional disclosures than required for interim financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008.

The volatility in the price of oil and natural gas, the recession in Canada and slowdown of economic growth has created a substantially more volatile business environment. These conditions will limit certain of the Company's business development activities and it will continue to provide risk for the Company in the future.

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 at September 30, 2009.

## **2. CHANGE IN ACCOUNTING POLICIES**

In February 2008, the CICA issued Section 3064 – "Goodwill and Intangible Assets". Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired. The implementation of this standard had no impact on the Company's financial statements.

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862 – "Financial Instruments-Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These amendments will be effective for the Company's interim and annual financial statements beginning December 31, 2009.

In January 2009, the CICA issued EIC-173- "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Corporation to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the financial statements.

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

**(unaudited)**

## 3. PROPERTY AND EQUIPMENT

	September 30, 2009	December 31, 2008
	\$	\$
Petroleum and natural gas properties		
- Canada	52,848,016	49,604,785
- International	12,366,754	12,366,754
Furniture and equipment	320,597	314,014
	<b>65,535,367</b>	62,285,553
Accumulated depletion and depreciation	28,086,145	21,752,533
Provision for impairment of international assets	12,366,754	10,317,310
	<b>25,082,468</b>	30,215,710

For the nine months ended September 30, 2009, the Company capitalized general and administrative costs that were directly attributable to domestic exploration activities of \$274,470 (2008 – nil).

As at September 30, 2009, \$3,121,784 (2008 - \$2,783,906) relating to undeveloped properties in Canada have been excluded from costs subject to depletion. There were no deferred expenditures relating to international projects as at September 30, 2009 (2008 - \$2,049,444).

The net book value of international expenditures in Pakistan:

	September 30, 2009	December 31, 2008
	\$	\$
Pakistan	-	2,049,444
	-	2,049,444

On May 27, 2009 Mari Gas Company Limited ("MGCL"), the operator of the Sukkur and Sujawal Blocks, notified the Company that it considered the Company to be in default of non-payment of cash calls as at June 3, 2009 and subject to forfeiture if arrears of cash calls were not put into good standing. The Company is evaluating its options and commenced legal action against the forfeiture in order to preserve the status quo so it can dispose of its working interests to a third party. In the event of forfeiture, the Company will not be entitled to receive any consideration for such forfeited working interest.

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

**(unaudited)**

## 3. PROPERTY AND EQUIPMENT (CONT)

In 2008, the Company had issued two unconditional, irrevocable bank guarantees for \$334,703 (PKR 25,966,080) and \$482,490 (US\$450,000) in favor of President, Islamic Republic of Pakistan through Director General Petroleum Concessions, Ministry of Petroleum and Natural Resources, Islamabad with respect to Sukkur and Sujawal blocks respectively, in relation to petroleum exploration, development and production in Pakistan, to guarantee the Company's financial obligations. The Company received notice of forfeiture from MGCL and consequently made a provision in the event the guarantees are called upon. The guarantee expired for Sukkur July 20, 2009 and has not been renewed, however the guarantee is still considered to be active. The guarantee for Sujawal expired November 8, 2009. Upon expiry on November 8, 2009, the Company did not renew, however the guarantee will still be considered as active. The Company has made the following provision:

Pakistan expenditure impairment	\$ 2,049,444
Reversal of cash call related to Pakistan blocks	(2,049,444)
Net	-
Accrual for bank guarantees	817,193
Accrual for other potential liabilities	1,040,104
Pakistan asset impairment and related obligations	\$ 1,857,297

## 4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$4.0 million (2008 – \$3.2 million) which will be incurred from 2010 to 2035. An inflation factor of 2% has been applied to the estimated asset retirement cost. At September 30, 2009 and December 31, 2008 a credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2009	December 31, 2008
	\$	\$
Balance, beginning of period	2,496,439	1,108,664
Change in estimate	(5,804)	1,452,347
Liabilities incurred	29,667	77,041
Liabilities settled	(789,838)	(224,612)
Accretion expense	136,859	82,999
Balance, end of period	1,867,323	2,496,439

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

***(unaudited)***

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## 5. OPERATING LOAN

The Company has a revolving line of credit to a maximum of \$10.0 million (December 31 2008- \$10.0 million). The facility was renewed on October 26, 2009 and is subject to an annual review scheduled for April 1, 2010. The Company is covenanted to maintain a working capital ratio of 1:1, defined as 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 \$25.0 million 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 together with the guarantee of BII.

As at September 30, 2009, \$2,076,296 was drawn against the facility, and letters of credit in the amount of \$7,500 and a bank guarantee of \$482,490 (US\$450,000) were held against this facility. The Company is compliant with its bank covenants.

## 6. RESTRICTED CASH, LETTER OF GUARANTEE

The restricted funds of \$2,843,651 include \$2,508,948 (US\$2.3 million) acquired through the acquisition of BII, to provide a performance guarantee to Petroleos del Ecuador under the terms and conditions of the Charapa Contract, and \$334,703 (PKR 25.9 million) representing an irrevocable bank guarantee in relation to petroleum exploration, development and production in Pakistan with respect to the Sukkur block. The \$334,703 bank guarantee expired on July 26, 2009; however, the Company considers it to be active and has accrued the liability.

## 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	\$
Balance at September 30, 2009 and December 31, 2008	16,096,084	21,546,430

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

*(unaudited)*

## 8. WARRANTS

The following table summarizes outstanding warrants at September 30, 2009:

	Number of Warrants	\$
Balance, December 31, 2008	1,414,664	493,234
Expired warrants issued with private placement, September 19, 2008	(1,084,000)	(460,523)
Balance, September 30, 2009	330,644	32,711

In addition to the above warrants, the Company issued 212,000 warrants to the agent for a fair value of \$100,914, which is recorded in contributed surplus.

	Number of Warrants	Weighted Average Exercise Price \$	Expiry date
Issued with private placement	330,644	3.25	November 30, 2011
Agents warrants, private placement	212,000	1.25	September 18, 2010
Total warrants outstanding	542,644	2.47	

## 9. STOCK OPTIONS

The Company has a stock option plan whereby up to 10% of the issued and outstanding common shares may be granted under option to employees, directors and other persons who provide ongoing management or consulting services to the Company. Stock options are granted for a term of five years and vest over three years from the grant date. The exercise price is a fixed price not less than the fair value of the stock on the day preceding the grant date.

The summary of stock option activity is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2008	630,000	\$ 1.31
Granted	150,000	\$ 1.00
Granted	55,000	\$ 1.25
Balance, September 30, 2009	835,000	\$ 1.25
<b>Exercisable, September 30, 2009</b>	<b>226,667</b>	<b>\$ 1.36</b>

ISR accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for options granted to employees, officers, directors and other persons who provide ongoing management or consulting services to the Company.

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

**(unaudited)**

## 9. STOCK OPTIONS (CONT)

ISR has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

The fair value of options granted were estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for the nine months ended September 30, 2009 and for the year ended December 31, 2008:

	September 30, 2009	December 31, 2008
Fair value of options granted	\$ 0.24	\$ 0.74
Risk-free interest	2.4%	2.8%
Expected life	5 years	5 years
Expected volatility	95.5%	85.0%
Dividend per share	\$ nil	\$ nil

## 10. CONTRIBUTED SURPLUS

	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 1,442,394	\$ 1,174,293
Stock-based compensation expense (i)	278,000	199,898
Agent warrant expense	-	100,914
Extension of expiry date of warrants issued with private placement	-	(32,711)
Expired warrants (Note 8)	460,523	-
Balance, end of period	\$ 2,180,917	\$ 1,442,394

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

**(unaudited)**

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three Months ended September 30,		Nine Months ended September 30	
	2009	2008	2009	2008
<i>Changes in non-cash working capital – operating:</i>				
Accounts receivable, prepaids and deposits	\$ (34,025)	\$ 903,612	\$ 663,750	\$ (696,848)
Accounts payable and accrued liabilities	743,671	(170,861)	742,957	3,078,110
	<b>\$ 709,646</b>	<b>\$ 732,751</b>	<b>\$ 1,406,707</b>	<b>\$ 2,381,262</b>
<i>Changes in non-cash working capital – investing:</i>				
Accounts receivable, prepaids and deposits	\$ -	\$ 369,614	\$ 59,615	\$ (643,563)
Accounts payable and accrued liabilities	(798,231)	(142,941)	(1,445,558)	(1,536,220)
	<b>\$ (798,231)</b>	<b>\$ 226,673</b>	<b>\$ (1,385,943)</b>	<b>\$ (2,179,783)</b>

## 12. FINANCIAL RISK MANAGEMENT

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 September 30, 2009.

### (ii) Interest rate risk

The Company's operating loan (Note 5) is exposed to fluctuations in short-term Canadian interest rates and as such the required cash flow to service the debt will fluctuate as a result of changes in interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rates.

### (iii) Foreign currency exchange rate risk

At September 30, 2009, the Company had \$334,703 (PKR 25.9 million) of cash held in a bank account denominated in Pakistan rupees, and \$2,508,948 (US\$2.3 million). These amounts are in restricted cash accounts to support bank guarantees and performance bonds. The Company had no outstanding forward exchange contracts in place at September 30, 2009.

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

***(unaudited)***

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## **12. FINANCIAL RISK MANAGEMENT (CONT)**

### *(iv) Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from petroleum and natural gas marketers and joint venture partners. As at September 30, 2009, the Company's accounts receivable balance consisted of \$680,000 owing by natural gas marketers, or approximately 94% of accounts receivables. The Company has not experienced any collection issues with its petroleum and natural gas marketers.

The carrying value of accounts receivable represents the Company's maximum credit risk exposure as at September 30, 2009. The Company has no receivables that it considers as being past due.

### *(v) 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's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The contractual maturities of accounts payable and accrued liabilities totaling approximately \$3.0 million as at September 30, 2009 are due within one year and are expected to settle in the next three months.

Liquidity risks may necessitate the need for the Company to pursue equity issuances, obtain project or debt financing, or enter into joint arrangements. There is no assurance that the necessary financing will be available in a timely manner.

As at September 30, 2009, the Company has a working capital deficit of \$4,078,141 and access to a credit facility of \$10.0 million (Note 5), of which the Company has utilized \$2,076,296, and has a performance guarantee of \$482,490 (US\$450,000) and a letter of credit of \$7,500 held against this facility. Subsequent to the end of the third quarter, on November 8, 2009, the performance guarantee expired. However, the Company considers it to be active and has accrued the liability.

### *(vi) Fair value of financial instruments*

The Company's financial instruments as at September 30, 2009 and December 31, 2008 include accounts receivable, deposits accounts payable and accrued liabilities, operating loan and letters of guarantee. The fair value of accounts receivable deposits and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

Bank debt bears interest at a floating market rate and accordingly fair value approximates the carrying value. The restricted cash and letters of credit do not significantly differ from their carrying value.

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

**(unaudited)**

## 13. 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.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital as follows:

	September 30, 2009	December 31, 2008
Shareholders' equity	\$ 18,927,094	\$ 23,878,065
Working capital:		
Cash	-	1,379,683
Accounts receivable	723,295	1,581,184
Prepaid expenses and deposits	255,965	121,439
Accounts payable and accrued liabilities	(2,981,105)	(5,733,149)
Operating loan	(2,076,296)	-
Working capital deficiency	\$ (4,078,141)	\$ (2,650,843)
<b>Total capital</b>	<b>\$ 14,848,953</b>	<b>\$ 21,227,222</b>

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.

## 14. SEGMENTED INFORMATION

The following table shows the geographic information of the Company's core area of operation:

Nine months ended September 30,	Canada		International	
	2009	2008	2009	2008
Revenue, net of royalties	\$ 5,929,951	\$ 12,104,092	\$ -	\$ -
Property and Equipment (Note 3)	26,576,468	30,215,710	-	2,049,444

# International Sovereign Energy Corp.

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2009

***(unaudited)***

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## **15. COMMITMENTS AND CONTINGENCIES**

The Company has an operating lease for office premises expiring August 31, 2011 which requires minimum monthly payments of \$11,871 or \$142,452 per year.

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.