

**INTERNATIONAL SOVEREIGN ENERGY  
CORP.**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**Form 51-102F2**

**FOR THE THREE AND TWELVE MONTH PERIODS ENDED  
December 31, 2009**

**March 24, 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of financial results, dated March 24, 2010, should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the years ended December 31, 2009 and 2008 of International Sovereign Energy Corp. ("ISR" or the "Company"). The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

**Basis of Presentation** The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The following MD&A compares the results of the year ended December 31, 2009 ("2009") to the year ended December 31, 2008 ("2008") and the results of the three months ended December 31, 2009 ("Q4 2009") to the three months ended December 31, 2008 ("Q4 2008").

**Non-GAAP Measurements** Within the Management's Discussion and Analysis references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties and operating and transportation expenses calculated on a per boe basis. Management utilizes these measures to analyze operating performance and leverage. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operations or other measures of financial performance calculated in accordance with Canadian GAAP. Funds from operations is commonly referred to as cash flow by research analysts and is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Total boes are calculated by multiplying the daily production by the number of days in the period.

The following table reconciles cash flow from operations to funds from operations which is used in the MD&A:

	Q4 2009	Q4 2008	2009	2008
	\$	\$	\$	\$
Cash flow from operations	(1,816,510)	(1,666,967)	(1,279,954)	6,691,059
Abandonment expenditures	28,960	210,196	818,798	224,612
Changes in non-cash working capital	2,222,095	2,414,740	815,388	33,478
Funds from operations	434,545	957,969	354,232	6,949,149

**Forward-Looking Statements** Certain statements contained within the MD&A, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. 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.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: ISR's production volumes and the timing of when additional production volumes will come on stream; ISR's realized price of commodities in relation to reference prices; future commodity prices; future operating costs; the Company's future royalty rates and the realization of royalty incentives; the impact of the New Royalty Framework on the Company's future royalties; ISR's expectation of reducing operating costs on a per unit basis; the divestiture of international assets; the relationship of ISR's interest expense and the Bank of Canada interest rates; increases in general and administrative expenses and recoveries; future development and exploration activities and the timing thereof; the future tax liability of the Company; the expected decrease to the depletion, depreciation and accretion rate; the estimated future contractual obligations of the Company and the amount expected to be incurred under its farm-in commitments; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

With respect to the forward-looking statements contained in the MD&A, ISR has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives, the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and there being no changes to current tax and regulatory requirements.

We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The 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 MD&A: volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of ISR stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or other legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and the other factors discussed under "Risk Factors" in the following annual MD&A. Readers are cautioned that the forgoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and ISR does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

### **Operations of the Company for 2010**

The following guidance for 2010 assumes that the global economy is on the road to recovery and that the oil and gas industry will begin to stabilize. ISR has placed a hold on capital expenditures in order to re-evaluate options on a go-forward basis. ISR will continue to purchase land and build an inventory of potential locations. Management is reviewing all areas for exploitation opportunities, as well as continuing to pursue mergers and acquisitions as opportunity is presented to them.

The Company has made the following operational assumptions:

*Royalties* – Management anticipates the average royalty rate for 2010, based on current commodity prices and legislation, to average between 15 to 20% of petroleum and natural gas revenue.

*Operating Costs* – Management does not foresee many changes to the operating cost and transportation expenses from that of 2009. ISR's production is mainly non-operated and production flows through third party facilities. With the assumption that production remains relatively constant the operating and transportation costs per boe will remain in the neighbourhood of \$10.00 – \$12.00 per boe.

*General and Administrative Expenses* – Management anticipates general and administrative expenses for 2010 to be between \$4.00 to \$6.00 per boe.

*Capital Investment* – a capital expenditure program has been suspended until re-evaluation of the organization is complete. Management is reviewing all areas for exploitation opportunities, as well as continuing to pursue mergers and acquisitions as opportunity is presented to them.

ISR will continue the process of divesting international assets located in Ecuador and Pakistan.

Share Capital – Outstanding as at March 24, 2010 are the following:

	Shares outstanding or issuable
Common shares	16,096,084
Warrants	1,626,644
Stock options	935,000

### Description of Business

International Sovereign Energy Corp. is a Calgary based, natural gas focused Company. The principal undertaking of the Company is to explore for, develop and hold interests in petroleum and natural gas properties. The primary operating regions are within Alberta and British Columbia, referred to as Berwyn, Clarke Lake, Boundary Lake, Marwayne, Medicine River and Wildmere. The common shares of the Company trade on the Toronto Stock Exchange (“TSX”) under the symbol ISR.

### SELECTED ANNUAL & QUARTERLY INFORMATION

Set out below is selected annual information for ISR for the last three years:

	2009	2008	2007
	\$	\$	\$
<b>Financial</b>			
Petroleum and natural gas sales	8,867,843	18,470,644	9,633,701
Cash flow from operations	(1,279,954)	6,691,059	2,130,618
Funds from operations	354,232	6,949,149	2,657,290
per share - basic and diluted	0.02	0.48	0.19
Net loss	(6,820,694)	(3,799,663)	(334,790)
per share - basic and diluted	(0.42)	(0.26)	(0.02)
Petroleum and natural gas additions, net of dispositions	4,604,041	7,943,962	5,102,247
Revolving line of credit	3,308,846	-	2,167,000
Working capital (deficit)	(5,077,229)	(2,650,843)	(2,874,096)
Total assets	29,240,197	37,117,644	35,444,093
Weighted shares outstanding			
basic and diluted	16,096,084	14,544,128	13,928,084
<b>Operations</b>			
Average daily production			
natural gas (mcf/d)	4,576	4,258	2,308
oil and ngl's (bbls/d)	119	200	250
combined (6:1) (boe/d)	882	909	635
Operating netback (\$/boe)	13.93	33.61	20.01

Set out below is selected information by quarter for ISR for the last eight quarters:

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial</b>								
Petroleum and natural gas sales	2,339,643	1,874,929	2,108,350	2,544,921	3,540,511	5,563,108	5,389,527	3,977,498
Cash in (out)flow from operations	(1,816,510)	417,466	(729,410)	848,501	(1,666,967)	3,577,011	2,418,264	3,044,752
Funds from operations	434,545	(226,213)	593,416	0	957,969	2,845,501	1,234,168	1,911,511
per share - basic	0.03	(0.01)	0.04	0.03	0.06	0.20	0.09	0.14
- diluted	0.03	(0.01)	0.04	0.03	0.06	0.18	0.09	0.14
Net income (loss)	(1,591,721)	(2,192,399)	(1,931,259)	(1,105,313)	(1,659,078)	1,149,935	(3,779,982)	489,464
per share - basic	(0.10)	(0.14)	(0.12)	(0.07)	(0.10)	0.08	(0.27)	0.04
- diluted	(0.10)	(0.14)	(0.12)	(0.07)	(0.10)	0.07	(0.27)	0.04
Petroleum and natural gas additions, net of dispositions	1,378,086	785,592	194,027	2,246,339	3,687,993	1,146,406	1,099,304	2,010,259
Working capital (deficit)	(5,077,229)	(4,078,141)	(2,665,672)	-	(2,650,843)	791,784	(3,269,170)	(2,973,719)
Total assets	29,240,197	28,905,379	31,131,417	37,306,332	37,117,644	38,289,202	36,592,301	37,642,191
Weighted shares outstanding								
basic	16,096,084	16,096,084	16,096,084	16,096,084	16,096,084	14,210,867	13,928,084	13,928,084
diluted	16,096,084	16,096,084	16,096,084	16,096,084	16,096,084	15,416,192	13,928,084	13,928,084
<b>Operations</b>								
Average daily production								
natural gas (mcf/d)	3,693	4,577	5,084	4,965	5,413	4,628	3,831	3,286
oil & ngl (bbls/d)	145	84	118	129	150	195	216	246
combined (boe/d)	761	847	965	956	1,052	967	854	794
Operating netback (\$/boe)	17.99	13.17	11.03	13.51	19.21	38.34	45.75	32.97

ISR has a portfolio that has averaged around 80% gas and 20% oil and NGL production during 2008 and 2009. Net income and funds from operations have fluctuated with the changes in commodity prices and production declines, international costs that have been impaired, as well as adjustments that occur within future income tax and changes in tax rates and values considered temporary in nature. There has been a decline in capital additions; 2008 activity consisted of drilling and tying in five wells, compared to four wells drilled in 2009 that were not considered commercially viable to tie-in. The Company has reported an increase in working capital deficit in 2009, as the use of cash flow was not enough to sustain the drilling activity and day to day operations.

ISR raised equity capital in Q3 2008 and has not raised any additional equity in the last five quarters. Q2 2008 and Q3 2008 recognized high petroleum and natural gas sales and funds from operations with record breaking commodity prices combined with higher production rates. The global economic downturn has since then driven commodity prices downward. Due to lower commodity prices, the Company did shut-in some gas production during 2009.

Oil and NGL production has declined due to the continuing watering out issue in the Company's Marwayne oil property. Q4 2009 compared to Q3 2009, the Company reported declines in natural gas production due to the natural decline in the Boundary Lake property and the watering out of the Gethering formation within the Company's Berwyn property, with an increase in oil production with the Inga, B.C. well coming back on production.

The Company has not used any commodity hedges and its realized prices are a function of prevailing world and North American commodity prices which have been and continue to be extremely volatile.

### Operating Summary

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant

volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States (“US”) currency rate.

In this MD&A, production and reserves information may be presented on a “barrel of oil equivalent” or “boe” basis with six thousand cubic feet (“mcf”) of natural gas being equivalent to one barrel (“bbl”) of crude oil or natural gas liquids. boe’s may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 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.

## Production

Production for 2009 averaged 882 boe/d consisting of 4,576 mcf/d of natural gas and 119 boe/d of oil and natural gas liquids (“NGL”) representing a 3% decrease from 2008 average production. This was primarily due a decline in oil and NGL production from the watering out of the Marwayne oil field offset by a 7% increase in natural gas production from the addition of the 2008 drill program all on-stream.

Production for Q4 2009 averaged 761 boe/d a 27% decrease from Q4 2008. The decline is represented in the 32% decrease of natural gas production quarter over quarter. One of the Company’s larger gas producers encountered water issues in Q4 2009.

The following table outlines ISR’s sales production volumes for the periods as indicated above:

		Q4 2009	Q4 2008	2009	2008
Natural gas	<i>mcf/d</i>	<b>3,693</b>	5,413	<b>4,576</b>	4,258
Oil and ngl's	<i>bbl/d</i>	<b>145</b>	150	<b>119</b>	200
Combined (6:1)	<i>boe/d</i>	<b>761</b>	1,052	<b>882</b>	909

## Commodity Pricing

ISR’s realized natural gas price for the year ended December 31, 2009 was \$3.84/mcf (2008 - \$7.80/mcf) compared to the Canadian Alberta Energy Company interconnect with the TransCanada Alberta system (“AECO”) daily index average of \$3.74 per gigajoule (“GJ”) and the AECO monthly index average of \$3.92/gj (2008 - \$7.71/gj). ISR marketed its natural gas at a mix of daily and monthly pricing.

Realized natural gas price for Q4 2009 reported was \$4.41/mcf, a 26% decline or \$5.92/mcf from Q4 2008.

Natural gas prices in North America moved downward through much of the first three quarters of 2009 reaching an intraday trading low of US\$2.41 per million British Thermal Units (“mmbtu”) on September 4, 2009. Since that time, prices have risen and 2009 closed the year at US\$5.57/mmbtu. The natural gas supply and demand balance was tested through the year as a drop in gas drilling levels was more than offset by reduced industrial demand. Although the economy began showing signs of recovery through the latter half of the year, industrial natural gas demand remained well below prior years. Reduced natural gas directed drilling was increasingly offset by horizontal drilling in higher productivity shale gas wells. This meant that gas production failed to decline at rates consistent with historical declines in drilling activity. Natural gas storage began winter at near record capacity, but in spite of relatively warm weather through November, colder than normal weather arrived in December to boost heating and power demand. In aggregate, the supply-demand balance for natural gas is improving with a recovery in the overall economy driven by government stimulus programs and growth in emerging economies.

The Company realized prices for its oil and NGL streams for the year ended December 31, 2009 were \$56.43/bbl (2008 - \$86.52/bbl). For Q4 2009, the Company recognized an increase in the oil and NGL price received of \$63.06/bbl or a 47% increase over Q4 2008 or \$43.02/bbl.

Crude oil prices increased during 2009 as supply declined faster than demand. Although strong demand from China and India continued throughout the year, North American oil drilling slowed and domestic supply declined. WTI oil pricing was significantly influenced by swings in the value of the US dollar and in turn, the changes in the equity markets. Through the year, crude oil and refined product inventories along with refinery utilization provided additional volatility. As prices

increased, the futures market priced the oil such that oil tankers became floating inventory as the ship leasing cost was less than the price increase to be gained. OPEC production quotas which had seen reasonably high compliance early in 2009 slipped to 58 percent compliance by year end. This combined with the uncertainty surrounding the floating storage volumes added to the volatility during 2009. Crude oil prices concluded 2009 with WTI trading at US\$79.36/bbl for a net increase of US\$33.02/bbl from the US\$46.34/bbl where it had traded at the start of the year.

<b>Average Sales Prices</b>		<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
Natural gas	<i>\$/mcf</i>	<b>4.41</b>	5.92	<b>3.84</b>	7.80
Oil and ngl's	<i>\$/bbl</i>	<b>63.06</b>	43.02	<b>56.43</b>	86.52
Combined (6:1)	<i>\$/boe</i>	<b>33.44</b>	36.58	<b>27.56</b>	55.50

<b>Benchmark Pricing</b>		<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
AECO natural gas	<i>C\$/mcf</i>	<b>4.33</b>	6.43	<b>3.97</b>	7.70
WTI crude oil	<i>US\$/bbl</i>	<b>75.96</b>	58.73	<b>61.63</b>	99.65
Edmonton par crude oil	<i>C\$/bbl</i>	<b>76.75</b>	63.92	<b>66.20</b>	102.84
Hardisty Heavy Crude Oil	<i>C\$/bbl</i>	<b>64.23</b>	38.76	<b>55.65</b>	72.44
Exchange rate	<i>US\$/C\$</i>	<b>0.95</b>	0.83	<b>0.88</b>	0.94

\*\*\*assume 1GJ= 1Mcf

### Sensitivity analysis

The following table sets forth management's estimates of the sensitivity of cash flow expected to be generated by the Corporation in 2010 based on internal estimates. The estimates contain numerous assumptions and anticipate a capital expenditure program of approximately \$0.5 million. The budget does not include capital for any significant acquisitions, but the Company continues to pursue such opportunities and management believes the Company will be able to fund such acquisitions outside of the budget.

	Variance in Factor	Variance in Annual Cash Flow
AECO natural gas	CDN\$0.10/mcf	82,448
WTI crude oil	US\$1.00 bbl	24,683
CDN/US \$	CDN\$0.01	18,670

### Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled \$8.9 million for 2009 compared to \$18.5 million in 2008 despite a very small decline in the sales production volume of 3%. The 52% decrease in overall sales is the result of the significant decline in commodity prices from 2008 of \$55.50/boe to 2009 of \$27.56/boe or 50%. Q4 2009 sales decreased from Q4 2008 as production decreased with the Marwayne and Boundary Lake properties encountering water, as well as the decision in 2009 to shut-in some gas production due to the lower commodity prices.

The following table outlines the Company's production sales for the periods indicated above:

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Natural gas	<b>1,498,549</b>	2,946,844	<b>6,418,611</b>	12,154,845
Oil and ngl's	<b>841,094</b>	593,667	<b>2,449,232</b>	6,315,799
<b>Total</b>	<b>2,339,643</b>	3,540,511	<b>8,867,843</b>	18,470,644

### **Royalties**

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalties decreased 78% to \$872,657 in 2009 from \$3,974,321 in 2008 due to lower revenues, as a result of lower commodity prices. The Company's average royalty rate in 2009 was 9.8% compared to 21.5% in 2008 as a result of lower commodity prices.

Q4 2009 royalties of \$274,407 represents a decline of 76% from 2008 royalties paid of \$1,148,280. This reduction is the result of lower revenues reported due to the decreased commodity prices quarter over quarter.

The table below outlines the royalties paid by ISR over the periods described above:

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Crown royalties	<b>203,915</b>	950,432	<b>666,123</b>	3,027,543
Freehold	<b>31,502</b>	149,317	<b>105,535</b>	705,936
Gross overriding	<b>38,990</b>	48,531	<b>100,999</b>	240,842
<b>Total</b>	<b>274,407</b>	1,148,280	<b>872,657</b>	3,974,321
\$/boe	<b>3.92</b>	11.86	<b>2.71</b>	11.98
% of revenue	<b>11.7</b>	32.4	<b>9.8</b>	21.5

### *Alberta Royalties*

On October 25, 2007, the Alberta government announced the New Royalty Framework ("new framework"), which took effect on January 1, 2009. The new framework is based on a new simplified royalty formula for natural gas that operates on a sliding scale determined by commodity prices, well productivity and drilling depth. The Company's Deep Basin well depths range between 2,300 to 2,700 meters which are eligible for the new measure depth drilling formula.

On November 19, 2008, the Alberta government announced that in response to the global economic crisis and a slowdown in crude oil and natural gas drilling throughout the province, it has implemented a transitional royalty program in which, companies drilling certain new wells after November 19, 2008, have a one-time option of selecting the transitional royalty program or the new framework. All wells drilled between 2009 and 2013 that adopt the transitional royalty program will be required to shift to the new framework on January 1, 2014. As a result, all of the Company's Alberta wells, drilled before November 19, 2008 are now under the new framework. For all Alberta wells drilled after November 19, 2008, the Company has completed the required elections for those wells it has determined would economically benefit under the transitional royalty program

On March 3, 2009, the Alberta government made a third announcement regarding royalties which provided incentives for the energy sector in response to the current global economic slowdown. The incentives include a drilling royalty credit for new conventional oil and natural gas wells of up to \$200 per meter drilled and a maximum five percent royalty rate for the first year of production from new oil or gas wells brought on production after April 1, 2009. On June 25, 2009, the Alberta government extended these incentives to March 31, 2011. The drilling royalty credit may be reduced depending on the amount of Alberta production on crown lands and how much crown royalties are paid. ISR has determined that it qualifies for the full credit. ISR is continuing to assess the impact of the incentives and will adjust drilling plans and the timing of bringing wells on production

accordingly. As at December 31, 2009, \$148,000 in Alberta drilling credits have been earned and recognized as a reduction to capital spending.

On March 11, 2010, the Alberta government announced modification of conventional oil and natural gas royalty rates to promote more innovation and use of new technologies. The new rates will become effective on a permanent basis for January 2011 production month. The current incentive program rate of five percent on new natural gas and conventional oil wells will become a permanent feature of the royalty system with current time and volume limits. The maximum royalty rate for conventional oil will be reduced at higher levels from 50% to 40%. The maximum royalty rate for conventional and unconventional natural gas will be reduced at higher levels from 50% to 36%. The transitional royalty framework for oil and gas introduced in November 2008 will continue until original announced expiration on December 31, 2013. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. All royalty curves will be finalized and announced by May 31, 2010.

#### *British Columbia Royalties*

On August 6, 2009, the government of BC announced an oil and gas stimulus package to enhance BC's competitive business climate and encourage continued oil and gas development and exploration. The package is comprised of two parts: a two percent royalty relief program and a change to the deep royalty credit program. The two percent royalty relief program applies to all natural gas wells drilled in a 10 month window (August 31, 2009 to July 1, 2010). The two percent royalty will apply to the first 12 months of production where production must commence before December 31, 2010.

The change to the deep royalty credit program includes an increase of 15 percent to the existing royalty deductions for natural gas deep drilling and the inclusion of horizontal wells drilled between 1,900 to 2,300 metres. The change applies to wells spud after August 31, 2009.

The two percent royalty relief program and the deep royalty credit program will co-exist but a company will only receive the benefits of one program at a time. The deep royalty credit will apply first. If the deep royalty credit is exhausted before 12 months of production, the two percent royalty will be in effect for the remainder of the 12 months. If the deep royalty credit is not exhausted before 12 months, the two percent royalty program will not apply.

ISR is continuing to review the incentives available in both Alberta and BC and has considered the benefits of each program in its future drilling plans.

#### **Operating and Transportation**

Operating and transportation costs include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production. For the year ended December 31, 2009, operating and transportation were \$3,513,318 or \$10.92/boe compared to the same period in 2008 of \$3,288,070 or \$9.91/boe. The increase in costs is due consistent fixed costs with lower average production.

Q4 2009 operating and transportation costs were \$806,631 or \$11.53/boe compared to \$533,087 or \$5.51/boe reported in Q4 2008. Q4 2008 costs were substantially lower due to the impact of reduced production of the Marwayne heavy oil property.

	<b>Q4 2009</b>	Q4 2008	<b>2009</b>	2008
	\$	\$	\$	\$
Operating and transportation	<b>806,631</b>	533,087	<b>3,513,318</b>	3,288,070
\$/boe	<b>11.53</b>	5.51	<b>10.92</b>	9.91

## Operating Netback

The following table summarizes the operating netbacks for ISR's properties quarter over quarter and year over year:

	Q4 2009	Q4 2008	2009	2008
	\$	\$	\$	\$
Petroleum and natural gas sales	2,339,643	3,540,511	8,867,843	18,470,644
Royalties	(274,407)	(1,148,280)	(872,657)	(3,974,321)
Operating and transportation	(806,631)	(533,087)	(3,513,318)	(3,288,070)
Operating netback	1,258,605	1,859,144	4,481,868	11,208,253
\$/boe	17.99	19.21	13.93	33.61

## General and Administrative

2009 general and administration ("G&A") totalled \$2,197,444 compared to \$4,215,731 in 2008. Q4 2009 totalled \$757,151 which was lower than the \$918,473 expended in Q4 2008. Gross G&A decreased year over year and quarter over quarter due to the reduction of executives managing the operations. 2008 expenses include approximately \$1.2 million unilaterally withdrawn from the Company's bank account prior to the Annual General Meeting on June 23, 2008 by the previous executives of the Company in the second quarter. These 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.

The magnitude of operator recoveries is a function of activity levels and the degree to which operations are operated by the Company. Operated recoveries were \$78,037 for 2009 compared to \$70,366 in 2008, the increase being a result of an increase in the number of operated projects for the Company.

The Company capitalized \$356,298 of G&A in 2009 and \$752,954 in 2008. 2008 capitalized value represents international costs incurred, whereas in 2009 the Company capitalized 100% of geological and geophysical employee compensation.

The largest portion of ISR's general and administrative costs is associated with salaries and benefits and as such, ISR's G&A will depend on the staffing levels in 2010 along with any changes in salaries and bonus payments.

The components of general and administration expense are as follows:

	Q4 2009	Q4 2008	2009	2008
	\$	\$	\$	\$
Gross G&A	851,782	968,909	2,631,779	5,039,051
Operator recoveries	(12,803)	(50,436)	(78,037)	(70,366)
Capitalized expenses	(81,828)	-	(356,298)	(752,954)
<b>General and Administrative</b>	<b>757,151</b>	<b>918,473</b>	<b>2,197,444</b>	<b>4,215,731</b>
\$/boe	10.81	9.49	6.83	12.71

## Interest Expense

Interest and bank management fees were lower in 2009 at \$82,730 compared to \$113,799 in 2008. The average debt levels in 2009 were lower than that used in 2008, as well as the borrowing rate was lower on the facility in 2009 compared to the rate in 2008. Q4 2009 of \$62,508 includes adjustments for standby and management fees paid earlier in the year, but had been charged to general and administrative expenses in the amount of \$40,000. The Company had paid the revolving line of credit in its entirety by Q4 2008 and therefore, did not incur any interest fees, compared to the amount drawn and outstanding at the end of Q4 2009 in the amount of \$3.3 million.

	Q4 2009	Q4 2008	2009	2008
	\$	\$	\$	\$
Interest	62,508	-	82,730	113,799
\$/boe	0.89	-	0.26	0.34

## Stock-based Compensation

Stock options have an exercise price equal to a fixed price not less than the fair value of the stock on the day preceding the grant date. Once options have vested, the optionee may purchase shares from the Company at this exercise price. The Company does not incur any cash costs when granting options nor when options are exercised, but does record a cost in its financial statements. The Company applies the fair value method for valuing stock option grants. Under this method, compensation costs attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. For 2009, ISR recognized stock-based compensation expense of \$199,858 compared to 2008 expense of \$199,898. During 2009, the Company granted 255,000 stock options with a weighted average fair value of \$0.26 per option using the Black-Scholes option pricing model. These options were granted at an average exercise price of \$1.00 per option. No options have been exercised in 2009; 226,667 stock options have vested and are exercisable at an average exercise price of \$1.36 per share.

Q4 2009 stock-based compensation was a recovery of \$78,642 compared to \$40,000 reported in Q4 2008. In Q3 2009, the Company made the decision to change the stock-based compensation calculation from straight-line to the graded vesting method. This was a change in estimate and applied prospectively from July 1, 2009.

	Q4 2009	Q4 2008	2009	2008
	\$	\$	\$	\$
Stock-based compensation	(78,642)	40,001	199,358	199,898
\$/boe	\$ (1.12)	\$ 0.41	\$ 0.62	\$ 0.60

## Depletion, Depreciation and Accretion

Depletion and depreciation are calculated based upon capital, production rates and reserves. The calculation for the years ended December 31, 2009 and 2008 include reserve estimates calculated in accordance with National Instrument 51-101 by independent reserve engineers.

For Q4 2009, depletion, depreciation and accretion (“DD&A”) was \$1.9 million (\$26.82/boe) compared to \$1.5 million (\$15.00/boe) in Q4 2008. For the year 2009, DD&A totalled \$8.3 million (\$25.93/boe) compared to \$4.9 million (\$14.81/boe) in 2008. ISR has excluded \$2.1 million from the depletion base related to unproved properties in 2009 compared to \$2.8 million in 2008. Future development costs of \$474,000 have been added to the depletion base in 2009 (2008 – nil).

Accretion expense is included in the DD&A expense. Accretion represents the change in value due to the passage of time of ISR’s asset retirement obligations (“ARO”). ISR’s ARO are a balance sheet provision based on the Company’s net ownership in wells and facilities. Management estimates the cost to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. Management estimates the total undiscounted amount of future cash flows required to abandon and reclaim wells and facilities as at December 31, 2009 to be approximately \$3.8 million, to be incurred over the next

26 years with the majority of these costs to be incurred between 2015 and 2035. The Company uses a credit adjusted risk-free rate of eight percent and an inflation rate of two percent to calculate ARO.

The underlying ARO may be increased over the period based on new obligations incurred from drilling wells or constructing facilities. Similarly, this obligation can be reduced as result of abandonment work undertaken thereby reducing future obligations. There has been \$191,000 recognized as accretion expense for the year ended December 31, 2009 (2008 - \$83,000).

The petroleum and natural gas properties were subject to a ceiling test as at December 31, 2009. No write-down was required as a result of this calculation.

	<b>Q4 2009</b>	Q4 2008	<b>2009</b>	2008
	\$	\$	\$	\$
Depletion and depreciation	<b>1,823,850</b>	1,763,897	<b>8,157,463</b>	4,829,741
Accretion	<b>53,981</b>	(311,784)	<b>190,839</b>	82,999
<b>Total</b>	<b>1,877,831</b>	1,452,113	<b>8,348,302</b>	4,912,740
Depletion and depreciation (\$/boe)	26.05	18.23	25.35	14.56
Accretion (\$/boe)	0.77	(3.22)	0.59	0.25
<b>Total (\$/boe)</b>	<b>26.82</b>	15.00	25.94	14.81

### Income Taxes

For the 2009 year, future tax recovery was \$1,412,040 compared to a recovery of \$2,242,792 for the 2008 year. For the 2009 year the Company reported a net loss before tax of \$8,223,798 versus a loss before tax of \$6,042,455 for the 2008 year. ISR recorded a reduction to its future taxes of \$830,752 in 2009 due to a change in enacted tax rates. The Q4 2009 future tax expense was \$187,000 compared to a future tax recovery of \$1.7 million in Q4 2008. The difference between the expected rate 29.0% and the effective rate for 2008 relates primarily to the tax rate differences and from permanent differences from stock-based compensation in 2009.

ISR does not expect to become taxable on an income tax basis in 2010 and has approximately \$19.8 million in tax pools to shelter taxable income in the future. These tax pool balances are subject to change as tax returns are completed, annual claims are made, and reclassification of items between categories may occur.

### Tax Pools

	<b>2009</b>
	\$
Canadian exploration expense & non-capital losses	8,300,000
Canadian development expense	4,630,000
Canadian oil and gas property expense	2,580,000
Undepreciated capital cost	4,130,000
Share issue costs	171,000
<b>Total</b>	<b>19,811,000</b>

### Funds from Operations and Net Income

For Q4 2009, funds from operations totalled \$434,545 or \$0.03 per basic and diluted share. Funds from operations for Q4 2008 totalled \$957,969 or \$0.06 per basic and diluted share. For the 2009 year, funds from operations totalled \$354,232 or \$0.02 per basic and diluted share, compared to funds from operations of \$6,949,149 or \$0.48 per basic and diluted share for the 2008 year.

Net loss for Q4 2009 was \$1,591,721 (\$0.10 per basic and diluted share) compared to a net loss of \$1,659,078 (\$0.10 per basic and diluted share) in Q4 2008. For the 2009 year, net loss was \$6,820,694 (\$0.42 per basic and diluted share) compared to a net loss of \$3,799,663 (\$0.26 per basic and diluted share) for the 2008 year.

The changes in non-cash working capital and abandonment expenditures are taken into consideration for cash flow from operations but are not accounted for in funds from operations.

The following table summarizes the net income on a barrel of oil equivalent basis for the periods indicated:

<b>\$/boe</b>	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
Sales price	33.44	36.58	27.56	55.50
Royalties	3.92	11.86	2.71	11.98
Operating and transportation	11.53	5.51	10.92	9.91
<b>Operating netback</b>	<b>17.99</b>	<b>19.21</b>	<b>13.93</b>	<b>33.61</b>
General and administrative	10.81	9.49	6.83	12.71
Interest	0.89	-	0.26	0.34
Other income	(0.18)	0.11	(0.08)	(0.21)
<b>Cash flow net back</b>	<b>6.47</b>	<b>9.61</b>	<b>6.92</b>	<b>20.77</b>
Depletion, depreciation and accretion	26.84	15.00	25.94	14.81
Stock-based compensation	(1.12)	0.41	0.62	0.60
Impairment of international assets	0.11	26.14	5.80	23.84
Unrealized (gain) loss on foreign exchange	0.56	(0.40)	0.12	(0.10)
Future income tax recovery	(0.11)	(17.19)	(5.02)	(6.76)
<b>Net loss</b>	<b>(19.81)</b>	<b>(14.35)</b>	<b>(20.54)</b>	<b>(11.62)</b>

### Capital Expenditures

2009 capital expenditures totaled \$4.6 million compared to \$7.9 million for 2008. During 2009, the Company drilled four gross wells that were not considered to be economically viable. In 2008, ISR drilled five gross gas wells for an 83% success rate and the capital expenditures included the tie-in of these wells. As well, 2008 recognized capital expenditures related to the Pakistan project and in 2009 the Company considered Pakistan expenditures to be impaired. The Company had been notified by its partner MGCL and Petroleum Exploration (Pvt) Limited of forfeiture of its interest in Pakistan. The Company has filed an injunction against the forfeiture. There is no activity or reserves attached to this project.

In addition to the cash capital expenditures, the Company has capitalized Canadian incurred geological expenses of \$356,000 in 2009 and no international costs have been capitalized (2008 – international costs of \$1.2 million). The Company has approximately 9,316.0 net hectares of undeveloped land at December 31, 2009.

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Land - acquisitions and dispositions	<b>333,574</b>	2,802,900	<b>571,484</b>	3,670,557
Geological and geophysical	<b>74,242</b>	216,869	<b>764,757</b>	1,073,781
Drilling and completion	<b>940,846</b>	493,661	<b>3,091,776</b>	2,549,605
Facilities, pipelines and equipment	<b>29,424</b>	159,763	<b>169,442</b>	623,834
Other	-	14,800	<b>6,582</b>	26,185
<b>Total</b>	<b>1,378,086</b>	3,687,993	<b>4,604,041</b>	7,943,962

## Equity

During 2009, ISR issued 255,000 stock options, and no options were exercised. At December 31, 2009, the Company had 885,000 stock options outstanding at an average exercise price of \$1.22 per share – of these, 226,667 have vested and are exercisable at an average exercise price of \$1.36 per share.

At March 24, 2010, the Company had 16,096,084 common shares and 985,000 stock options outstanding. The average exercise price of stock options outstanding is \$1.19.

<b>Share Information</b>	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
Shares outstanding				
Basic	<b>16,096,084</b>	16,096,084	<b>16,096,084</b>	16,096,084
Diluted	<b>18,607,758</b>	18,352,728	<b>18,607,758</b>	18,352,728
Weighted average shares outstanding				
Basic and diluted	<b>16,096,084</b>	16,096,084	<b>16,096,084</b>	14,544,128

## Liquidity and Capital Resources

International Sovereign Energy Corp. is listed as an issuer on the Toronto Stock Exchange trading under the symbol “ISR”. The Company’s market capitalization at December 31, 2008 was approximately \$8.7 million. The market has experienced a high degree of volatility and with the global market crisis the Company has seen declines in its market capitalization by approximately \$2.7 million from 2008. At March 24, 2010 the market capitalization was approximately \$9.3 million.

<b>Trading History on the TSX</b>	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>2009</b>	<b>2008</b>
High	\$ <b>0.95</b>	\$ 1.07	\$ <b>0.95</b>	\$ 1.90
Low	\$ <b>0.45</b>	\$ 0.51	\$ <b>0.35</b>	\$ 0.51
Close	\$ <b>0.54</b>	\$ 0.71	\$ <b>0.54</b>	\$ 0.71
Volume	<b>445,933</b>	35,667	<b>474,458</b>	30,225

At December 31, 2009, ISR had drawn \$3.3 million on its \$10.0 million revolving line of credit and had a working capital deficit of \$5.1 million.

## Off Balance Sheet Transactions

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of the date of this MD&A.

## Contractual Obligations

The contractual obligations for which the Company is responsible are as follows:

	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	After 5 Years
	\$	\$	\$	\$	\$
Revolving line of credit	3,308,846	3,308,843	-	-	-
Asset retirement obligations	3,805,000		460,500	15,400	3,329,100
Office lease	285,000	-	285,000	-	-

ISR enters into many contractual obligations in the course of conducting its day to day business. Material contractual obligations consist of a revolving line of credit with a chartered bank (Note 5 – to the annual financial statements) and asset retirement obligations. The payment terms on the asset retirement obligations are based on an estimated timing of expenditures to be made in future periods. Actual expenditures and when they may occur may differ materially from the amounts and times presented above. The Company must pay crown royalty, surface rentals and mineral taxes with respect to its ongoing ownership of hydrocarbon production rights. The Company also had an office lease commitment that extends to August 31, 2011 with annual cost for base rent of \$142,500. ISR has not entered into any firm transportation commitments to date.

### *Other Obligations*

As a part of its ongoing operations, the Company is involved in potential litigation and 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.

## Outlook

The Company's performance to date in 2009 has been adversely affected by the substantial decline in energy prices from the 2008 levels. Although prices seem to be recovering, the Company will adjust its strategy in order to be better equipped to handle the future volatility of specifically the natural gas markets. The Company plans to accomplish this through both merger/acquisition possibilities combined with rebalancing the production portfolio more towards a 50:50 oil to gas ratio. Through such a program, the Company will increase production, revenue and profit streams and be able to generate the funds to fund further acquisitions as those become available.

The Company has recently evaluated its portfolio and has identified potential areas within its portfolio where further development of oil assets can be undertaken at minimal cost.

Natural gas prices continued to decline in Q4 2009 to \$4.41/mcf compared to that recognized in Q4 2008 of \$5.92/mcf. While partially influenced by the strength of crude oil price changes, natural gas price changes are predominantly based on supply and demand fundamentals in the North American market.

Crude oil prices experienced a significant drop from the peak in mid-July 2008 for West Texas Intermediate ("WTI") of more than US\$145.00/bbl to a range of between US\$60.00 to \$70.00/bbl in late October 2008. For the three months ended December 31, 2009, WTI averaged \$75.96/bbl.

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 gas prices versus oil prices is less favourable.

### *Strategic Direction*

The Company realizes that although it presently possesses a relatively strong balance sheet, its sector is currently out of favour with the investing public and has and continues to explore avenues to increase shareholder value. Since the portfolio is heavily weighted towards gas the Company is captive to the North American economic recovery, which is presently subject to an overabundance of supply.

### *Hedging*

The Company is prepared to participate in a hedging program at the appropriate price point; however given the size of the Company it must recognize the risk inherent in prices moving against any hedge in this market of volatile gas prices.

### *Domestic*

With focus of the Company shifting towards oil opportunities, the Company plans to develop its current portfolio with a view of increasing its oil production. Specifically, the Company is exploring the idea of 'reactivating' its Marwayne heavy oil property. If the initial reactivation pilot well proves to be successful, which is planned for the latter half of Q2 2010, the property could again hold substantial value for the Company. The Marwayne property also holds the potential for further development drilling in which the Company plans to execute during Q3 2010.

The Company is pursuing plans mentioned in the previous section in order to move its portfolio towards more oil, as well as continuing to explore the acquisition of oil bearing assets and increasing its portfolio of undeveloped land for future exploration and development in order to increase future reserves, production and cash flow so as to maximize shareholder value.

### **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 ("WI") in each block is 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 three wells in the Sukkur field. This 2,416.43 square kilometre block is situated in Sindh Province (100 kms from Karachi), Southern Pakistan. The block is situated next to the Badin area which contributes some 50% of Pakistan's hydrocarbon production. Numerous oil and gas discoveries exist to the east of the block. Numerous oil and gas discoveries exist to the east of the block. MGCL has completed the reinterpretation of vintage 2D seismic from which a Lower Goru sand lead has been identified.

The Sukkur Joint Venture ("SJV") is comprised of MGCL, the operator, with a 50% WI, Petroleum Exploration Limited, a Pakistani exploration and production company with a 35% WI and the ISR, with a 15% EI. The SJV committed to drill three exploration wells in the Sukkur Exploration Block.

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.

The Company is of the opinion 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. Although the Koonj Well, in the Sukkur Block, drilled in July 2008, has proven reserves, the operator has yet to start production despite assurances going back to November 2008. The company is not confident that the production will commence in a timely manner, and 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, 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 continues to examine whether or not continuation of this investment is 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.

### **Financial Instruments**

Financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and a revolving line of credit. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short term-maturities. The revolving line of credit bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

### **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, and concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits. 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**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's internal controls over financial reporting ("ICFR") are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

Management has assessed the effectiveness of the Company's internal control over financial reporting as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009. No changes were made to the Company's internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are 'reasonably likely to materially affect, internal controls over financial reporting.

It should be noted that while the Company's Management including the Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

During the process of management's assessment, it was determined that a deficiency existed in the ICFR. Segregation of duties was identified as an area where a deficiency exists. Specifically, certain duties within the accounting department were not segregated due to the limited number of individuals employed in this area. The risk of a material misstatement is mitigated by direct involvement of senior management in the day to day operations of the Company and review of the financial statements and disclosures by senior management and the Board of Directors. However, these mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. This weakness and its related risks is not uncommon in an entity of the size of the Company. As the Company grows, it plans to expand the number of individuals involved in the accounting function.

## **Critical Accounting Estimates**

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make judgments and estimates that affect the financial results of the Company. ISR management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies are presented in Note 2 to the consolidated financial statements. The critical estimates are discussed below:

**Petroleum and Natural Gas Reserves** - All of the Company's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101") The evaluation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

**Depletion Expense** – The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation or for impairment, for which many write-down would be charged to depletion and depreciation expense.

**Full Cost Accounting Ceiling Test** – The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion expense.

**Asset Retirement Obligations** – The asset retirement obligations is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

**Income Taxes** – The determination of the Company’s income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

## **Change in Accounting Policies and Recent Accounting Pronouncements**

### **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.

### **Business Combinations**

The accounting standard section 1582 “Business Combinations” was issued (the “new standard”) and replaced the previous business combinations standard (the “current standard”). The new standard applies prospectively to business combinations on or after January 1, 2011 with earlier adoption permitted. Under this standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at the acquisition of closing date. Under the current standard, the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is announced. In addition, the new standard requires all acquisition costs to be expensed while the current standard allows for the capitalization of these costs as part of the purchase price. The new standard also addresses contingent liabilities, which will be required to be recognized at fair value on acquisition and subsequently remeasured at each reporting period until settled. The current standard requires only contingent liabilities that are payable to be recognized. The new standard requires negative goodwill to be recognized in earnings rather than the current standard of deducting from non-current assets in the purchase price allocation. ISR is currently assessing the impact of the standard. The adoption of section 1582 will also require the adoption of sections 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interest”. ISR is currently assessing the impact of the standard.

### **Consolidated Financial Statements and Non-Controlling Interests**

In 2009 two new standards, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interest”, were issued which replace the existing guidance under section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for business combinations occurring on or after January 1, 2011, with early application permitted. ISR is currently assessing the impact of the standard.

### **Risk Factors**

Investors that purchase shares are participating in the net cash flow from a portfolio of natural gas and crude oil producing properties. As such, the cash flow paid to investors and the value of the Company’s shares is subject to numerous risk factors. Some of the risks are common to all businesses while many are associated with the oil and gas industry the following information is only a summary of certain risk factors which could affect the Company’s future results:

### ***Exploration, Development and Production Risks***

Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by ISR will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of ISR will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that ISR will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, ISR may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, 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.

ISR attempts to minimize exploration, development and production risks by utilizing a high-end technical team with extensive experience and multidisciplinary skill sets to assure the highest probability of success in its drilling efforts. Our collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation. ISR utilizes not only the publicly available sources of subsurface data and information, but also employs its own proprietary data set of rock core and drill cuttings descriptions to enhance the quality and probability of success of its internally generated plays and prospects. Where possible prospects have multi-zone potential and activity is focused in regions where ISR's expertise and experience can provide a competitive advantage.

Reserve estimates of economically recoverable natural gas and crude oil 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 operation expenses. All of these estimates may vary from actual results. Estimates of the recoverable natural gas and crude oil reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery 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.

Each year, a firm of independent engineers evaluates a significant portion of proved and probable reserves. At December 31, 2009, 100 percent of the reserves of ISR were evaluated by Paddock, Lindstrom & Associates Ltd.

### **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader United States and global credit and financial markets

and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

#### ***Prices, Markets and Marketing 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 ISR. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of ISR's oil and gas reserves. ISR might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in ISR's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition material decline in prices from historical average prices could limit ISR's borrowing base, therefore reducing the bank credit available to ISR, and could require that a portion of any existing bank debt of ISR be repaid.

In addition to establishing markets for its oil and natural gas, ISR must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by ISR will be affected by numerous factors beyond its control. ISR will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by ISR. The ability of ISR to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. ISR will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and may other aspects of the oil and natural gas business.

The Company's results of operations and financial condition are dependent on prices received for the production of natural gas and crude oil. With the Company's production heavily weighted to natural gas, changes to natural gas prices have the most material effect on its cash flow. Prices for natural gas and crude oil have fluctuated significantly during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil producing regions, which are beyond the control of the Company. Prices received from production in Canada also reflect changes in the Canadian/US currency exchange rate. Any decline in the prices for natural gas and crude oil could have a material adverse effect on the Company's operations, financial condition and the level of capital expenditures provided for the development of its natural gas and crude oil reserves.

#### ***Substantial Capital Requirements; Liquidity***

ISR's cash flow from its production and sales of petroleum and natural gas may not, at all times be sufficient to fund its ongoing activities. From time to time, ISR may require additional financing in order to carry out its oil and acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ISR to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If ISR's revenues from its production of petroleum and natural gas decrease as a result of lower oil and natural gas prices or otherwise, it may affect ISR's ability to expend the necessary capital to replace its reserves or to maintain its production. If ISR's funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to ISR.

ISR's lenders will be provided with security over substantially all of the assets of ISR. If ISR becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell ISR's properties. The proceeds of any such sale would be applied to satisfy amounts owed to ISR's lenders and other creditors and only the remainder, if any, would be available to ISR.

The Company monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farm-outs of projects may be arranged if capital constraints are an issue or if the risk profile dictate that we wish to

hold a lesser working interest position. Equity, if available and if on reasonable terms, may be utilized to help fund our capital program.

### ***Access to Capital***

Access to capital has become limited during these times of economic uncertainty. To the extent the external sources of capital become limited or unavailable; ISR's ability to make the necessary capital investments to maintain or expand oil and gas reserves may be impaired.

### ***Regulatory Risk***

There can be no assurance that government royalties, income tax laws, environmental laws and regulatory requirements relating to the oil and gas industry will not be changed in a manner which adversely affects the Company or its shareholders.

Although the Company has no control over these regulatory risks, it continuously monitors changes in these areas by participating in industry organizations and conferences, exchanging information with third party experts and employing qualified individuals to assess the impact of such changes on the Company's financial and operating results.

### ***Credit Exposure***

Recent economic conditions have increased the risk that certain counterparties for our oil and gas sales and our joint venture partners may fail to pay. We mitigate these increased risks through diversification and a review process of the credit worthiness of our counterparties, but still assumes customer credit risk associated with natural gas and crude oil sales, financial hedging transactions and joint venture participants.

ISR's policy to mitigate credit risk associated with product sales is to maintain marketing relationships with large, established and reputable purchasers that are considered creditworthy. ISR has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within two to three months of the joint venture bill being issued to the partner. ISR attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. Joint venture receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. ISR does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, the Company does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

### ***Health, Safety and Environment***

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 local 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 natural 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 of applicable environmental legislation 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 expenditure and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Company believes that it will be immaterial compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

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 Company’s exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject the Company to possible future legislation regulating emissions of greenhouse gases, such as the Government of Canada’s proposed *Clean Air Act* of 2006 and Alberta’s recently enacted *Climate Change and Emissions Management Act*. The direct or indirect costs of these regulations may adversely affect the expected business of the Company.

### ***Insurance***

ISR’s involvement in the exploration for and development of oil and gas properties may result in ISR becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although ISR has insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, ISR may elect not to obtain insurance to deal with specific risks due to the high premiums associate with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to ISR. The occurrence of a significant event that ISR is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on ISR’s financial position, results of operations or prospects.

### ***Competition***

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

Certain of ISR’s customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect ISR’s ability to sell or supply oil or gas to these customers in the future. ISR’s ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

### ***Additional Information***

Additional information regarding International Sovereign Energy Corp. and its business and operations, including the annual information form (“AIF”) is available on the Company’s profile at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at International Sovereign Energy Corp., 1750, 801 – 6<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3W2 or by assessing the website at [www.isove.com](http://www.isove.com).