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# INDEPENDENT RESEARCH



## International Sovereign Energy Corp. (ISR: TSX)

Date: December 19, 2008  
Price: \$0.68



### SHARE DATA (as at December 19, 2008)

52-Week High/Low	\$1.90 - \$0.51
3-Mth Avg. Trading Volume	29,675 shares
Shares (millions)	Basic 16.1 F/D 18.4
Market Capitalization	\$10.9 million
Market Cap per Flowing boe (991 boepd)	\$11,045
NAV (10% DCF)	\$59.4 million

KEY INFORMATION	2006A	2007A	2008E
Average Production (boepd)	427	635	915
Cash Flow (000's)	3,458	2,638	7,500
per share	0.26	0.19	0.52
Price/CF	3.2	4.3	1.3
Debt/CF	-	1.1	-
Production Costs per boe	11.16	14.30	12.10
Netback	29.65	20.01	34.85

### FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Sep. 30		9 Months Sep. 30	
	2008	2007	2008	2007
Revenues	5,563	2,488	14,930	7,127
Cash Flow	2,846	627	5,991	1,931
per share	0.200	0.045	0.427	0.139
Net Income	1,150	(168)	(2,141)	(242)
per share	0.081	(0.012)	(0.153)	(0.017)

### PRODUCTION DATA

Nat. Gas (mcf/d)	4,628	2,368	3,870	2,195
Oil & NGLs (bpd)	195	284	218	263
Boepd (6:1)	967	678	863	629

### BALANCE SHEET (as at September 30, 2008)

Current Assets	\$ 5,002,118
Total Assets	38,289,202
Current Liabilities	4,210,334
Long-Term Debt	nil
Shareholders' Equity	25,423,949

## Highlights:

- domestic production with int'l exploration
- debt free with positive working capital
- expected tie-in of Pakistani well during 2009
- recent tie-in of high-impact Berwyn well
- expansion of credit facilities to \$10 million
- trading at low valuation of NAV, book value, and price to cash flow

International Sovereign Energy Corp. (ISR) is active in the exploration and development of hydrocarbon reserves in Western Canada and internationally. A new board of directors was elected at the company's annual general meeting on June 23, 2008. Since this time, the new management team has been instrumental in improving production domestically, while eliminating debt, reducing and controlling overhead expenditures, and placing ISR on a sound financial base from which to grow.

ISR's properties in Western Canada include Berwyn, Leaman, Little Bow, Medicine River, Red Earth, Swan Hills, Wildmere, and Boundary Lake in Alberta, as well as Clarke Lake, Fort St. John, and Inga in B.C. Internationally, the company has interests in Pakistan and Ecuador.

For the 9 months ended Sep. 30, 2008, ISR drilled 5 (2.38 net) gas wells resulting in 1.98 net gas wells for an 83% success rate. During the third quarter, the company accepted an offer to sell its Marwayne heavy oil assets for \$1.6 million. The sale includes production of about 20 bopd. Closing is scheduled for late 2008 or early 2009.

Under the new management team, the first major project was the 100% interest Berwyn 7-11 well, which was drilled in the third quarter and brought into production on November 1, 2008. Management projects the well is capable of 1.4 mmcf/d (250 boepd) but came onstream at a reduced rate of 750 mcf/d. Once the plant area operator is pleased with response from the gathering system, the company expects the well to flow to its full capacity. The Berwyn area continues to be a major focus of the company.

Also during the third quarter, the Koonj well no. 1A in the Sukkur development of Pakistan was successfully tested and is now being prepared for tie-in into the gas gathering system. The well was tested at gross rates of 15 mmcf/d and is expected to have commercial sales in the first half of 2009. ISR has a direct 15% interest in the Sukkur Block with Mari Gas Company Limited (MGCL), the second largest producer of gas in Pakistan. The farm-in agreement provides that the company be responsible for 25% of the development costs of the first 3 wells in the Sukkur field. The joint venture is also exploring 2 other prospects within the block.

Other significant property interests for ISR include Boundary Lake and Medicine River, Alberta. At Boundary Lake, the company has completed a 3 well drilling program. The first well (31.6% interest) was placed onstream in early April 2008, and the other two wells (40% interest) were tied-in after spring break-up. Estimated production from these 3 wells is approximately 400 boepd.

At Medicine River, ISR holds an 85% working interest in the 2-25 twin gas well which commenced production during the last week of December 2007. The area has limited development potential but produces about 15% to 20% of corporate production.

Internationally, Int'l Sovereign also owns and operates the 25,050 hectare Charapa Concession in Ecuador. The Concession contains 3 prospective structures, of which one is drill ready based on existing seismic. Subsequent to September 30, 2008, the new management team has prepared a revised work program after meeting with Petro Ecuador officials.

For the 3 months ended Sep. 30, 2008, ISR achieved average production of 967 boepd, up 43% from 2007 results. Production for the month of September was 991 boepd which does not include production from the Berwyn or Pakistan wells. Cash flow for the third

quarter was \$2.8 million or \$0.20 per share and net income totaled \$1.1 million or \$0.08 per share. With the Berwyn well tied-in, the company should be producing about 1,100 to 1,200 boepd currently. Capital expenditures were \$5.1 million for the first 9 months of 2008 with an additional \$2 million planned for the fourth quarter. The CAPEX program for 2009 is presently budgeted at about \$11 million.

On September 19, 2008, the company completed a \$2.65 million financing by issuing 2,168,000 units at \$1.25 per unit. The infusion of capital allowed ISR to eliminate its bank debt. The company also recently announced a new \$10 unutilized line of credit with National Bank.

As at December 31, 2007, ISR's proven plus probable reserves were evaluated by Chapman Petroleum Engineering Ltd. to be 4.34 million boe. The net present value of these reserves, discounted at 10%, increased to \$62.8 million or \$4.51/share. A new reserve estimate will be completed at year-end 2008.

In other notes, ISR has instituted legal proceedings to challenge the validity of \$1.2 million paid to previous management due to interpreted change of control covenants in various employment contracts.

International Sovereign is in the enviable position of being debt free with additional production coming onstream and significant growth opportunities both domestically and internationally. The company is well positioned to weather the current economic turmoil and should emerge with a stable financial foundation. ISR is presently trading at only 1.3 times expected cash flow for 2008 and at less than one-sixth of its latest net asset value. While commodity prices have deteriorated significantly over the past 3 months, none of these figures include the financial impact of the Berwyn and Pakistan wells, nor future drilling success. ISR is one of the few oil and gas companies that should continue to show growth in 2009.

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