INTERNATIONAL ENERGY, INC.
Form 10QSB
February 13, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended December 31, 2006

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

INTERNATIONAL ENERGY, INC.

AND SUBSIDIARIES

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation)

333-52040

(Commission File Number)

98-0195748

(I.R.S Employer Identification No.)

1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, V6J 1G1

(Address of principal executive offices)

(604) 659-5001

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

State the number of shares outstanding of each of the Issuer s classes of common equity as of the latest practicable date. As of February 9, 2007, there were 36,932,500 shares of the Issuer s Common Stock, $0.001 par value per share outstanding.

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [X]

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ITEM 1. Financial Statements

In the opinion of management, the accompanying unaudited consolidated financial statements included in this Form 10-QSB reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

INTERNATIONAL ENERGY, INC. AND SUBSIDIARIES

(Formerly "e.Deal.net, Inc.")

(A Development Stage Company)

INTERIM CONSOLIDATED BALANCE SHEET

December 31, 2006

(Unaudited)

(Basis of Presentation - Going Concern Uncertainties - Note 1)

(Expressed in U.S. Dollars)	**December 31, 2006**
ASSETS	
Current assets	
Cash	$29,674
Prepaid expenses	152
Total current assets	29,826
Computer equipment, net (Note 6)	398
Oil, Gas and Mineral Leases, unproven (Note 7)	112,000
Total assets	$142,224
LIABILITIES	
Current	
Accounts payable and accrued liabilities	$10,081
Accrued management fees - related party (Note 5)	162,945
Accrued interest - related party (Note 5)	41,903
Notes payable - related party (Note 5)	110,000

Total liabilities	324,929
STOCKHOLDERS' DEFICIENCY	
Stockholders' Deficiency	
Preferred stock: $0.01 par value; Authorized: 1,000,000 shares	
Issued and outstanding: None	-
Common stock: $0.001 par value; Authorized: 100,000,000 shares	
Issued and outstanding: 36,932,500 shares	11,611
Additional paid-in capital	1,378,918
Deficit accumulated during the development stage	(1,573,234)
Total stockholders' deficiency	(182,705)
Total liabilities and stockholders' deficiency	$142,224

(The accompanying notes are an integral part of these interim unaudited consolidated financial statements)

INTERNATIONAL ENERGY, INC. AND SUBSIDIARIES
(Formerly "e.Deal.net, Inc.")
(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the nine months and three months ended December 31, 2006 and 2005
and from inception (November 6, 1998) to December 31, 2006
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,		From Inception (November 6, 1998) to December 31,
(Expressed in U.S. Dollars)	2006	2005	2006	2005	2006
Revenue	$ -	$ -	$-	$ -	$ -
Expenses					
Depreciation	$179	$179	$537	$537	$5,275
General and administrative	7,840	8,846	37,806	32,770	308,190
Management and consulting fees - related party (Note 5)	3,600	5,500	8,900	9,450	211,568
Rent	1,858	-	5,631	-	33,262
Salaries and benefits	-	-	-	-	95,024
Stock based compensation (Note 8)	-	115,460	54,443	597,094	839,979
Website fees - related party	-	-	-	-	48,050
	13,477	129,985	107,317	639,851	1,541,348
Operating Loss	(13,477)	(129,985)	(107,317)	(639,851)	(1,541,348)
Other income and expenses					
Interest income	456	86	1,795	1,833	13,747
Interest expense	(2,010)	(2,010)	(6,009)	(6,089)	(45,633)
	(1,554)	(1,224)	(4,214)	(4,256)	(31,886)
Net loss available to common shareholders	$(15,031)	$(131,209)	$(111,531)	$(644,107)	$(1,573,234)
Loss per share - basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.02)	

Weighted average number of common shares				
outstanding - basic and diluted	36,932,500	36,928,696	36,932,500	35,984,645

(The accompanying notes are an integral part of these interim unaudited consolidated financial statements)

INTERNATIONAL ENERGY, INC. AND SUBSIDIARIES

(Formerly "e.Deal.net, Inc.")

(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
from inception (November 6, 1998) to December 31, 2006

(Unaudited)

(Expressed in U.S. Dollars)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Deficit accumulated during development stage	Total Stockholders' equity (deficiency)
Inception, November 6, 1998	-	$-	$-	$-	$-
Common stock issued at $0.001 per share to a related party for management services	20,000,000	5,000	-	-	5,000
Common stock issued for cash at $0.25 per share fiscal year ended March 31, 1999	1,360,000	340	84,660	-	85,000
Loss, inception (November 6, 1998) to March 31, 1999	-	-	-	(7,470)	(7,470)
Balance, March 31, 1999	21,360,000	5,340	84,660	(7,470)	82,530
Loss, year ended March 31, 2000	-	-	-	(16,185)	(16,185)

Balance, March 31, 2000	21,360,000	5,340	84,660	(23,655)	66,345
Loss, year ended March 31, 2001	-	-	-	(171,793)	(171,793)
Balance, March 31, 2001	21,360,000	5,340	84,660	(195,448)	(105,448)
Common stock issued for cash at $0.10 per share, October 17, 2001	10,000,000	2,500	247,500	-	250,000
Loss, year ended March 31, 2002	-	-	-	(144,541)	(144,541)
Balance, March 31, 2002	31,360,000	7,840	332,160	(339,989)	11
Common stock issued to a related party for services rendered at $0.08 per share, August 5, 2002	2,402,500	601	47,449	-	48,050
Common stock issued to a related party for services rendered at $0.08 per share, August 5, 2002	1,200,000	300	23,700	-	24,000
Cancellation of previously issued common stock, February 4, 2003	(1,200,000)	(300)	(23,700)	-	(24,000)
Loss, year ended March 31, 2003	-	-	-	(149,933)	(149,933)
Balance, March 31, 2003	33,762,500	8,441	379,609	(489,922)	(101,872)
Loss, year ended March 31, 2004	-	-	-	(70,132)	(70,132)

Balance, March 31, 2004	33,762,500	8,441	379,609	(560,054)	(172,004)
Loss, year ended March 31, 2005	-	-	-	(59,494)	(59,494)

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Balance, March 31, 2005	33,762,500	8,441	379,609	(619,548)	(231,498)
Common stock issued upon exercised of warrants, at $0.05 per share	3,120,000	3,120	152,880	-	156,000
Common stock issued upon exercised of stock option, at $0.13 per share	50,000	50	6,450	-	6,500
Stock based compensation expense	-	-	785,536	-	785,536
Loss, year ended March 31, 2006	-	-	-	(842,155)	(842,155)
Balance, March 31, 2006	36,932,500	11,611	1,324,475	(1,461,703)	(125,617)
Stock based compensation expense	-	-	54,443	-	54,443
Loss, nine months ended December 31, 2006	-	-	-	(111,531)	(111,531)
Balance, December 31, 2006	36,932,500	$11,611	$1,378,918	$(1,573,234)	$(182,705)

(The accompanying notes are an integral part of these interim unaudited consolidated financial statements)

INTERNATIONAL ENERGY, INC. AND SUBSIDIARIES

(Formerly "e.Deal.net, Inc.")

(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

for the nine months ended December 31, 2006 and 2005

and from inception (November 6, 1998) to December 31, 2006

(Unaudited)

(Expressed in U.S. Dollars)	Nine months ended December 31, 2006	Nine months ended December 31, 2005	From Inception (November 6, 1998) to December 31, 2006
Cash flows from (used in) operating activities			
Net Loss	$(111,531)	$ (644,107)	$(1,573,234)
Adjustments for items not involving cash:			
Depreciation	537	537	5,275
Common stock issued for services	-	-	53,050
Stock based compensation expenses	54,443	597,094	839,979
Change in non-cash working capital items:			
Decrease (increase) in prepaid expenses	1,090	-	(152)
Increase (decrease) in accounts payable	8,978	(2,777)	10,081
Increase (decrease) in accrued management fees -related party	-	-	162,945
Increase in accrued interest -related party	6,008	6,014	41,902
Net cash flow used in operating activities	(40,475)	(43,239)	(460,154)
Cash flows used in investing activities			
Purchase of property and equipment	-	-	(5,672)
Purchase of oil, gas and mineral leases	-	(112,000)	(112,000)
Net cash flow used in investing activities	-	(112,000)	(117,672)
Cash flows from financing activities			
Proceed from issuance of common stock	-	162,500	497,500

Proceed from loan from related parties	-	-	110,000
Net cash flow from financing activities	-	162,500	607,500
Increase (decrease) in cash	(40,475)	7,261	29,674
Cash, beginning of period	70,149	74,866	-
Cash, end of period	$29,674	$82,127	$29,674
Supplemental disclosure of cash flow information:			
Interest paid in cash	$-	$75	$3,731
Income tax paid in cash	$-	$-	$-
Non-cash Investing and Financing Activities:			
Common stock issued for services	$-	$-	$53,050

(The accompanying notes are an integral part of these interim unaudited consolidated financial statements)

INTERNATIONAL ENERGY, INC. AND SUBSIDIARIES

(FORMERLY e.Deal.net, Inc.)

(A Development Stage Company)

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Expressed in U.S. dollars)

Note 1 Basis of Presentation and Going Concern Uncertainties

Basis of Presentation

International Energy, Inc. (the Company) was incorporated under the laws of the State of Nevada on November 6, 1998, under the name e.Deal.net, Inc. , with an authorized capital of 100,000,000 shares of common stock, par value of $0.001 per share, and 1,000,000 preferred stock, par value of $0.01. On June 20, 2005, the Company amended its Articles of Incorporation to effect a change of name to International Energy, Inc. from e.Deal.net, Inc.

On June 9, 2005, the Company incorporated two wholly owned subsidiaries; International Energy Corp. and e.Deal Enterprises Corp., both subsidiaries are incorporated under the laws of the State of Nevada.

Effective June 20, 2005, the Company completed a reorganization by changing its name to International Energy, Inc. and a forward split of its common stock by issuing four new shares for one old share.

Through International Energy Corp., the Company is involved in the investigation, acquisition and exploration for petroleum and natural gas in various parts of the United States and Canada. During the nine months ended December 31, 2006, the Company focused solely on petroleum and natural gas exploration.

The Company ceased its business of providing online automotive information. The assets and liabilities, the results of operations and cash flows related to the business were not classified as discontinued operations as the amounts were not significant.

Going Concern Uncertainties

The Company has been a development stage company and has incurred net operating losses of $1,573,234 since inception (November 6, 1998). The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern, which is dependent upon the Company s ability to establish itself as a profitable business.

Due to the start-up nature of the Company s business, the Company expects to incur losses as it expands. To date, the Company s cash flow requirements have been primarily met by debt and equity financings. Management believes it has sufficient cash flow to meet its capital requirements for at least the next twelve months. If the Company is unable to generate profits or unable to obtain additional funds for its working capital needs, it may have to cease operations.

Management is devoting substantially all of its present efforts in securing and establishing a new business and has not generated any revenues. To meet these objectives, the Company plans to raise additional funds through private or public equity investment in order to expand the range and scope of its business operations, but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. Furthermore, there is no assurance the net proceeds from any successful financing arrangement will be sufficient to cover cash requirements during the initial stages of the Company s operations.

In view of these conditions, the ability of the Company to continue as a going concern is in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that its current and future plans enable it to continue as a going concern. These consolidated financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for our fiscal year beginning April 1, 2007. We are currently evaluating the expected impact, if any, that FIN 48 will have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value according to accounting principles generally accepted in the United States, and expands disclosure requirements regarding fair value measurements. This statement emphasizes that fair value should be determined based on assumptions market participants would use to price the asset or liability. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the expected impact, if any, that SFAS 157 will have on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective for fiscal years ending after November 15, 2006. We are currently evaluating the provisions of SAB No. 108.

Note 2 Presentation of Interim Information

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Form 10-QSB instructions and in the opinion of management contains all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position as of December 31, 2006, and the consolidated results of operations for the three and nine months ended December 31, 2006 and 2005, and cash flows for the nine months ended December 31, 2006 and 2005. These results have been determined on the basis of generally accepted accounting principles and practices in the United States and applied consistently as those used in the preparation of the Company's 2006 Annual Report on Form 10-KSB.

Certain information and footnote disclosure normally included in the financial statements presented in accordance with generally accepted accounting principles in the United States have been condensed or omitted. It is suggested that the accompanying financial statements be read in conjunction with the financial statements and notes thereto

incorporated by reference in the Company's 2006 Annual Report on Form 10-KSB.

Note 3 Significant Accounting Policies

Oil and Gas Properties

The Company utilizes the full cost method to account for its investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, capitalized interest costs relating to unproved properties, geological expenditures, tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. As of December 31, 2006, we have no properties with proven reserves. When we obtain proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not depleted until proved reserves associated with the projects can be determined. If the future exploration of unproved properties is determined uneconomical, the amount of such properties is added to the capitalized cost to be depleted. As of December 31, 2006, all of our oil and gas properties were unproved and were excluded from depletion. At December 31, 2006, management believes none of our unproved oil and gas properties were considered impaired.

The capitalized costs included in the full cost pool are subject to a ceiling test, which limits such costs to the aggregate of the estimated present value of the future net revenues from proved reserves, based on current economic and operating conditions plus the lower of cost and estimated net realizable value of unproven properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in the statement of operations.

Stock Based Compensation

Prior to April 1, 2006, the Company accounted for stock based compensation in accordance with SFAS 123 under the fair value based method that measures compensation cost at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Effective April 1, 2006, the Company adopted SFAS 123(R), which amended SFAS 123, using the modified prospective method. The adoption of SFAS 123(R) had no impact on the Company s financial statement.

Note 4 Net Loss Per Common Share

Basic earnings or loss per share is based on the weighted average number of shares outstanding during the period of the financial statements. Diluted earnings or loss per share are based on the weighted average number of common shares outstanding and dilutive common stock equivalents. All per share information are adjusted retroactively to reflect stock splits and changes in par value, when applicable. All loss per share amounts in the financial statements are basic loss per share because the inclusion of stock options and warrants outstanding would be antidilutive. The computation of basic and diluted loss per share is as follows at December 31, 2006:

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Numerator - net loss available to common stockholders	$(15,031)	$(131,209)	$(111,531)	$(644,107)
Denominator - weighted average number of common shares				

outstanding	36,932,500	36,928,696	36,932,500	35,984,645
Basic and diluted loss per common shares	$(0.00)	$(0.00)	$(0.00)	$(0.02)

On June 20, 2005, the Company completed a forward common stock split of 4 new shares for 1 outstanding old share. The financial statements have been retroactively restated to reflect the split.

Note 5 Related Party Transactions

Management fees: During the three-month and nine-month periods ended December 31, 2006, the Company paid $3,600 (2005: $5,500) and $8,900 (2005: $9,450), respectively, in management fees to directors and $211,568 for the period from inception (November 6, 1998) to December 31, 2006.

Accrued management fees: An amount of $162,945 was accrued for management services provided by a director in previous years.

Notes payable - related party: The notes payable at December 31, 2006 was made up of four separate loans bearing interest at 7.25% per annum advanced to the Company by its former President, Herdev S. Rayat on the following dates: February 13, 2001 ($40,000); April 24, 2001 ($40,000); June 8, 2001 ($20,000); and July 26, 2001 ($10,000). The entire principal amount and accrued interest is due and payable on demand. Accrued interest on the notes amounted to $41,903 as of December 31, 2006. Interest expenses were $2,010 (2005: $2,010) and $6,009 (2005: $6,089) for the three-month and

nine-month periods ended December 31, 2006, respectively, and $45,633 for the period from inception (November 6, 1998) to December 31, 2006.

Rent: The Company s principal office is located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. These premises are owned by a private corporation controlled by a Director and majority shareholder. The Company pays a monthly rent of C$700 effective from April 1, 2006. The Company paid rent to the lessor of $1,858 (2005: $nil) and $5,631 (2005: $nil) for the three-month and nine-month periods ended December 31, 2006 and $5,631 for the period from inception (November 6, 1998) to December 31, 2006.

Warrants: As of December 31, 2006, 1,560,000 share purchase warrants were held by the majority stockholder of the Company. Each warrant entitles the holder to purchase one share of common stock at $0.05 per share and will expire in October 2007.

Mr. Harmel S. Rayat is also a director and stockholder of each of PhytoMedical Technologies, Inc., Entheos Technologies, Inc., Octillion Corp. and HepaLife Technologies, Inc.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Note 6 Property and Equipment

Property and equipment consist of computer equipment with a stated cost of $5,672, accumulated depreciation of $5,275, for a net book value of $398. Depreciation expenses for the three-month and nine-month periods ended December 31, 2006 was $179 (2005: $179) and $537 (2005: $537), respectively, and for the period from inception (November 6, 1998) to December 31, 2006 was $5,275.

Note 7 Oil, Gas and Mineral Properties, unproven

On June 13, 2005, the Company entered into a Joint Venture Agreement with Reserve Oil and Gas, Inc. for the purpose of purchasing oil and gas leases, drilling, completing oil and gas wells and the resale of acquired leases. The Company paid cash $112,000 to purchase four leases totaling 312.7 acres in Sevier County, Utah.

Note 8 Stock Options

The Company s Board of Directors agreed to enter into 10 year Non-Statutory Stock Option Agreements with certain employees for 8,000,000 out of the 20,000,000 common shares reserved for issuance under the Company s 2002 Incentive Stock Option Plan, which was approved by shareholders on September 30, 2002. The objective of this plan is to attract and retain the best personnel, providing for additional performance incentives and promoting the success of the Company by providing individuals the opportunity to acquire common stock.

The options have an exercise price of $0.13, which was the last sale price on May 3, 2005 and the closing bid price of the Company s shares on June 10, 2005, and all options become exercisable in three (3) equal installments of thirty-three and one-third percent, with the first installment exercisable immediately, and an additional thirty-three and one-third percent of shares exercisable in six months and the balance becoming exercisable in 12 months.

The Company recorded stock based compensation expense of $nil (2005: $115,460) and $54,443 (2005: $597,094) for the three-month and nine-month periods ended December 31, 2006, respectively, and for the period from inception (November 6, 1998) to December 31, 2006 was $839,979.

The movement of stock options can be summarized as follows:

	Number of options	Weighted average exercise price
Balance, December 31, 2006 and March 31, 2006	7,950,000	$0.13

The number of options exercisable at December 31, 2006 is 7,950,000. The weighted average remaining contractual life of the outstanding stock options at December 31, 2006 is 8.5 years.

Note 9 Warrants

The movement of stock purchase warrants can be summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2006 and March 31, 2006	6,880,000	$0.05

Each warrant expires on October 17, 2007.

Note 10 Segment Information

The Company s business is considered as operating in one segment based upon the Company s organizational structure, the way in which the operations are managed and evaluated, the availability of separate financial results and materiality considerations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

Except for the historical information presented in this document, the matters discussed in this Form 10-QSB for the three and nine months ending December 31, 2006, and specifically in the items entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", or otherwise incorporated by reference into this document, contain "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are identified by the use of forward-looking terminology such as "believes", "plans", "intend", "scheduled", "potential", "continue", "estimates", "hopes", "goal", "objective", expects", "may", "will", "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by the Company.

The reader is cautioned that no statements contained in this Form 10-QSB should be construed as a guarantee or assurance of future performance or results. These forward-looking statements involve risks and uncertainties, including those identified within this Form 10-QSB. The actual results that the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties. These forward-looking statements are based on current expectations, and the Company assumes no obligation to update this information. Readers are urged to carefully review and consider the various disclosures made by the Company in this Form 10-QSB and in the Company's other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

Overview

International Energy, Inc. (the Company) was incorporated under the laws of the State of Nevada on November 6, 1998, under the name e.Deal.net, Inc. , with an authorized capital of 100,000,000 shares of common stock, par value of $0.001 per share, and 1,000,000 preferred stock, par value of $0.01. On June 20, 2005, the Company amended its Articles of Incorporation to effect a change of name to International Energy, Inc.

Through International Energy Corp., a wholly owned subsidiary of International Energy, Inc., we plan to be involved in the exploration for petroleum and natural gas in various parts of the United States and Canada.

During the nine months ended December 31, 2006, we ceased our business of providing online automotive information. From our incorporation until November, 2006, we were in the business of providing online automotive information. As management investigated opportunities and challenges in the business of online automotive

information, management realized that the business did not present the best opportunity for our company to realize value for our shareholders. As a result, our company decided to abandon the online automotive information business. We have focused our business strategy on the investigation, acquisition and exploration of petroleum and natural gas properties.

International Energy Corp.

International Energy Corp., a subsidiary of International Energy, Inc., is an exploration stage oil and gas company engaged in the exploration for oil and gas in the State of Utah, as well as other parts of the US and Canada. On June 9, 2005, International Energy Corp. entered into a Joint Venture Agreement with Reserve Oil & Gas, Inc., pursuant to which the two companies plan on purchasing various leases, drilling and completing oil and gas wells. International Energy Corp. and Reserve Oil & Gas, Inc. currently jointly own 312.7 acres of oil, gas and mineral leases located in Sevier County, Utah. The acreage in Sevier County was previously estimated to be 372.5 acres, however, subsequent to registering the oil, gas and mineral leases with the State of Utah, the tangible workable acreage totaled to 312.7 acres.

Critical Accounting Policies

Our discussion and analysis or plan of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of its financial statements.

Oil and Gas Properties

The Company utilizes the full cost method to account for its investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, capitalized interest costs relating to unproved properties, geological expenditures, tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. As of December 31, 2006, we have no properties with proven reserves. When we obtain proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not depleted until proved reserves associated with the projects can be determined. If the future exploration of unproved properties is determined uneconomical, the amount of such properties is added to the capitalized cost to be depleted. As of December 31, 2006, all of our oil and gas properties were unproved and were excluded from depletion. At December 31, 2006, management believes none of our unproved oil and gas properties were considered impaired.

The capitalized costs included in the full cost pool are subject to a ceiling test, which limits such costs to the aggregate of the estimated present value of the future net revenues from proved reserves, based on current economic and operating conditions plus the lower of cost and estimated net realizable value of unproven properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in the statement of operations.

Stock Based Compensation

Effective April 1, 2006, the Company adopted SFAS 123(R), which amended SFAS 123 Accounting for Stock-Based Compensation, using the modified prospective method. FAS123 accounted for all stock-based compensation arrangements under which compensation cost is determined using the fair value of stock based on compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The adoption of SFAS 123(R) and the modified prospective method will not have any impact on the Company s financial statements.

Income Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. We currently have recorded a full valuation allowance against net deferred tax assets as we currently believe it is more likely than not that the deferred tax assets will not be realized

Contingencies

We may be subject to certain asserted and unasserted claims encountered in the normal course of business. It is our belief that the resolution of these matters will not have a material adverse effect on our financial position or results of operations, however, we cannot provide assurance that damages that result in a material adverse effect on our financial position or results of operations will not be imposed in these matters. We account for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Plan of Operations

The Company s principal source of liquidity is cash in bank, which we anticipate will be sufficient to fund our operations for the next twelve months. The Company's future funding requirements will depend on numerous factors, including: potential oil and gas reserves; to recruit and train qualified management personnel; and the Company's ability to compete against other, better capitalized corporations in similar businesses.

For the next twelve months the Company and its joint venture partner, Reserve Oil & Gas, Inc. (Reserve), plan to explore and develop its leases in Sevier County, Utah, which are jointly held by the Company and Reserve. Currently, International Energy and Reserve jointly own 312.7 acres of oil, gas and mineral leases located in Sevier County, Utah. The Company may require additional funds to implement our growth strategy in our oil, gas and mineral exploration operations.

Due to the "start up" nature of the Company's businesses, the Company expects to incur losses as it expands. The Company expects to raise additional funds through private or public equity investment in order to expand the range and scope of its business operations. The Company will seek access to private or public equity but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. See "Risk Factors" for additional details.

Liquidity and Capital Resources

The Company has been a development stage company and has incurred net operating losses of $1,573,234 since inception (November 6, 1998). The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern, which is dependent upon the Company s ability to establish itself as a profitable business.

Due to the start-up nature of the Company s business, the Company expects to incur losses as it expands. To date, the Company s cash flow requirements have been primarily met by debt and equity financings. Management believes it has sufficient cash flow to meet its capital requirements for at least the next twelve months. If the Company is unable to generate profits or unable to obtain additional funds for its working capital needs, it may have to cease operations.

Management is devoting substantially all of its present efforts in securing and establishing a new business and has not generated any revenues. To meet these objectives, the Company plans to raise additional funds through private or public equity investment in order to expand the range and scope of its business operations, but there is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. Furthermore, there is no assurance the net proceeds from any successful financing arrangement will be sufficient to cover cash requirements during the initial stages of the Company s operations.

In view of these conditions, the ability of the Company to continue as a going concern is in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that its current and future plans enable it to continue as a going concern. These consolidated financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

As at December 31, 2006, the Company had a cash balance of $29,674. The Company has financed its operations primarily through cash on hand during the nine month period ending December 31, 2006.

Net cash flows used in operating activities was $40,475 for the nine month period ending December 31, 2006, compared to net cash flows used of $43,239 for the same period in 2005.

Net cash flows used in investing activities was $0 for the nine month period ending December 31, 2006, compared to net cash flows used of $112,000 for the same period in 2005, primarily due to the initial cost for the purchase of oil, gas and mineral property leases occurred in 2005.

Net cash provided by financing activities was $0 for the nine months period ending December 31, 2006, compared to $162,500 for the same period in 2005. The Company has financed its operations primarily from cash on hand and proceeds from warrant exercises.

Related Party Transactions

Management fees: During the three-month and nine-month periods ended December 31, 2006, the Company paid $3,600 (2005: $5,500) and $8,900 (2005: $9,450), respectively, in management fees to directors and $211,568 for the period from inception (November 6, 1998) to December 31, 2006.

Accrued management fees: An amount of $162,945 was accrued for management services provided by a director in previous years.

Notes payable - related party: The notes payable at December 31, 2006 was made up of four separate loans bearing interest at 7.25% per annum advanced to the Company by its former President, Herdev S. Rayat on the following dates: February 13, 2001 ($40,000); April 24, 2001 ($40,000); June 8, 2001 ($20,000); and July 26, 2001 ($10,000). The entire principal amount and accrued interest is due and payable on demand. Accrued interest on the notes amounted to $41,903 as of December 31, 2006. Interest expenses were $2,010 (2005: $2,010) and $6,009 (2005: $6,089) for the three-month and nine-month periods ended December 31, 2006, respectively, and $45,633 for the period from inception (November 6, 1998) to December 31, 2006.

Rent: The Company s principal office is located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. These premises are owned by a private corporation controlled by a Director and majority shareholder. The Company pays a monthly rent of C$700 effective from April 1, 2006. The Company paid rent to the lessor of $1,858 (2005: $nil) and $5,631 (2005: $nil) for the three-month and nine-month periods ended December 31, 2006 and $5,631 for the period from inception (November 6, 1998) to December 31, 2006.

Warrants: As of December 31, 2006, 1,560,000 share purchase warrants were held by the majority stockholder of the Company. Each warrant entitles the holder to purchase one share of common stock at $0.05 per share and will expire in October 2007.

Mr. Harmel S. Rayat is also a director and stockholder of each of PhytoMedical Technologies, Inc., Entheos Technologies, Inc., Octillion Corp. and HepaLife Technologies, Inc.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Off-Balance Sheet Items

The Company currently has no off-balance sheet items.

Risk Factors of the Business

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Our early stage of development makes it difficult to evaluate our business and prospects.

Our business is subject to the risks inherent in the establishment of a new business. Specifically, in formulating our business plan, we have relied on the judgment of our officers, directors and consultants but have not conducted any formal independent market studies concerning the demand for our services. Further, due to our limited operating history, we have difficulty accurately forecasting our revenue, and we have limited historical financial data upon which to base operating expense budgets. You should consider our business and prospects in light of the heightened risks and unexpected expenses and problems we may face as a company in an early stage of development in new and rapidly-evolving industries.

We have a general history of losses and cannot assure you that we will become profitable in the future.

We were formed in 1998, and to date, we have not generated any operating revenues. We have experienced operating losses in each quarterly and annual period since inception. From inception through December 31, 2006, we have accumulated losses of $1,573,234.

Even if we become profitable in the future, we cannot accurately predict the level of, or our ability to sustain profitability. Because we have not yet been profitable and cannot predict any level of future profitability, you bear the risk of a complete loss of your investment in the event our business plan is unsuccessful.

With our oil and gas subsidiary, we do not expect positive cash flow from operations in the near term. There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- the costs to acquire additional leases are more than we currently anticipate;

- drilling and completion costs for additional wells increase beyond our expectations; or

- we encounter greater costs associated with general and administrative expenses or offering costs.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our business plans.

Our development of and participation in an increasingly larger number of oil and gas prospects have required and will continue to require substantial capital expenditures. The uncertainty and factors described throughout this section may impede our ability to economically find, develop, exploit, and acquire natural gas and oil reserves. As a result, we may not be able to achieve or sustain profitability or positive cash flows from operating activities in the future.

If we do not retain our key management personnel and attract and retain other highly skilled employees, our business will suffer.

Our future success depends on the skills, experience and performance of our senior management team, other key personnel and advisors, and their ability to operate effectively, both individually and as a group. If any of our existing senior management or other key personnel were to leave the company, it would be difficult to replace them, and our business would be materially harmed. There are no employment agreements with any employee, nor do we maintain any key person life insurance policies for any of our key employees.

Our success will also depend on our ability to recruit, retain and motivate additional highly skilled sales, marketing and engineering personnel. We believe we will face significant competition for individuals with the skills required to develop, market and support our products and services.

We may be unable to raise additional capital in the future.

We may not be able to obtain additional funding when needed, which could limit future expansion and marketing opportunities and result in lower than anticipated revenues. We may require additional financing to further develop our business and to pursue other business opportunities.

If the market price of the common stock declines, some potential financiers may either refuse to offer us any financing or will offer financing at unacceptable rates or unfavorable terms. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing stockholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. If we are unable to obtain financing on favorable terms, or at all, this unavailability could prevent us from expanding our business, which could materially impact our future potential revenues and our business.

Significant unanticipated fluctuations in our actual or anticipated quarterly revenues and operating results may cause us not to meet investors' expectations and may result in a decline in our stock price.

Our quarterly operating results may vary significantly in the future. Moreover, as a result of our limited operating history it is difficult to accurately forecast our revenue in any given period. Accordingly, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and should not be relied upon as indications of sustainable trends or other future performance. If our revenues, operating results or earnings are below the levels expected by investors, our stock price is likely to decline.

The price of our common stock may fluctuate significantly and may be negatively affected by factors beyond our ability to control or predict.

The price of our common stock may be affected by broader market trends unrelated to our or our competitors' operating performances. Our stock price and the stock prices of many other companies in the technology and emerging growth sectors have historically experienced wide fluctuations, including rapid rises and declines in stock prices that have often been unrelated to the operating performance of such companies. Volatile trends and fluctuations are typically the result of the combination of general economic, political and market conditions.

These factors are beyond our ability to control or predict.

Our principal shareholders, executive officers and directors have significant voting power and may take actions that may not be in the best interests of our shareholders.

Our principal shareholders, executive officers, directors and their affiliates, in the aggregate, own more than 69% of our outstanding common stock. These shareholders, if they act together, will be able to control our management and affairs and all matters requiring shareholder approval, including the election and removal of directors and approval of significant corporate transactions. This influence over our affairs might be adverse to the interest of our other shareholders. In addition, this concentration of ownership may delay or prevent a change in control and might have an adverse effect on the market price of our common stock.

Liquidity of Shares in Market Place

As of February 9, 2007, one of our directors beneficially owns approximately 69% of the Company s outstanding common stock, which could affect the liquidity of the company s shares in the market.

Applicable SEC rules governing the trading of Penny Stocks" limits the trading and liquidity of our common stock, which may affect the trading price of our common stock.

Our common stock currently trades on the OTC Bulletin Board. Since our common stock continues to trade below $5.00 per share, our common stock is considered a "penny stock" and is subject to SEC rules and regulations, which impose limitations upon the manner in which our shares can be publicly traded.

These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include:

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Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;

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Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;

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"Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;

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Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

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The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers.

Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than $2,000,000 (if the issuer has been in continuous operation for at least three years) or $5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than $6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential

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investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

Future sales of large amounts of common stock could adversely affect the market price of our common stock and our ability to raise capital.

Future sales of our common stock by existing stockholders pursuant to Rule 144 under the Securities Act of 1933, or following the exercise of outstanding warrants and future option grants, could adversely affect the market price of our common stock.

Our directors and executive officers and their family members are not under lockup letters or other forms of restriction on the sale of their common stock. The issuance of any or all of these additional shares upon exercise of warrants will dilute the voting power of our current stockholders on corporate matters and, as a result, may cause the market price of our common stock to decrease. Further, sales of a large number of shares of common stock in the public market could adversely affect the market price of the common stock and could materially impair our future ability to generate funds through sales of common stock or other equity securities.

We must adhere to environmental regulations.

The Company believes it conducts its business in compliance with all environmental laws presently applicable to its facilities. To date, there have been no expenses incurred by the Company related to environmental issues.

We may not have a majority of independent directors.

We cannot guarantee our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, who are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company and its stockholders generally and the controlling officers, stockholders or directors.

We do not intend to pay dividends in the foreseeable future.

We have never declared nor paid a dividend on our common stock. We intend to retain earnings, if any, for use in the operation and expansion of our business and, therefore, do not anticipate paying any dividends in the foreseeable future.

Risk Factors in the Oil and Gas Industry

We currently have no sales and marketing force to generate revenue.

As we remain in the development stage, we have not yet generated any revenues, nor do we have any customers.

The principal target customers for our crude oil production are expected to be refiners, remarketers and other companies, some of which are expected to have pipeline facilities near the producing properties we acquire. In the event pipeline facilities are not conveniently available, we intend to truck or barge crude oil to storage, refining or pipeline facilities.

We intend to sell our oil and gas production under both short-term (less than one year) and long-term (one year or more) agreements at prices negotiated with third parties. Under both short-term and long-term contracts, typically either the entire

contract (in the case of short-term contracts) or the price provisions of the contract (in the case of long-term contracts) are renegotiated from intervals ranging in frequency from daily to annual.

We have not yet adopted any specific sales and marketing plans, nor do we expect in the short-term, the need to hire sales and marketing personnel.

Title to Properties

We believe that the title to our leasehold properties is good and defensible in accordance with standards generally acceptable in the oil and gas industry, subject to exceptions that are not so material as to detract substantially from the use of such properties. Our leasehold properties are subject to royalty, overriding royalty and other outstanding interests customary in the industry. The properties may be subject to burdens such as liens incident to operating agreements and current taxes, development obligations under oil and gas leases and other encumbrances, easements and restrictions. We do not believe any of these burdens will materially interfere with our use of these properties.

As is customary in the oil and gas industry, only a preliminary title examination is conducted at the time properties believed to be suitable for drilling operations are acquired by the Company. We rely upon the brokers of the properties to conduct the title examination. We intend to perform necessary curative work with respect to any significant defects in title prior to proceeding with operations.

We operate in a market that is intensely and increasingly competitive.

The oil and gas business is highly competitive. We compete with private, public and state-owned companies in all facets of the oil and gas business, including suppliers of energy and fuel to industrial, commercial and individual customers. Numerous independent oil and gas companies, oil and gas syndicates and major oil and gas companies actively seek out and bid for oil and gas prospects and properties as well as for the services of third-party providers, such as drilling companies, upon which we rely. Many of these companies not only explore for, produce and market oil and natural gas, but also carry out refining operations and market the resultant products on a worldwide basis. A substantial number of our competitors have longer operating histories and substantially greater financial and personnel resources than we do.

Competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the government of the United States and other countries, as well as factors that we cannot control, including international political conditions, overall levels of supply and demand for oil and gas, and the markets for synthetic fuels and alternative energy sources. Intense competition occurs with respect to marketing, particularly of natural gas.

Government and Environmental Regulation in the Oil and Gas Industry

Domestic development, production and sale of oil and gas are extensively regulated at both the federal and state levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, compliance with which is often difficult and costly and some of which carry substantial penalties for failure to comply. State statutes and regulations require permits for drilling operations, drilling bonds and reports concerning wells. Utah and other states in which we intend to conduct operations also have statutes and regulations governing conservation matters and establishment of maximum rates of production from oil and gas wells.

Our operations are subject to extensive and developing federal, state and local laws and regulations relating to environmental, health and safety matters; petroleum; chemical products and materials; and waste management. Permits, registrations or other authorizations are required for the operation of certain of our facilities and for our oil and gas exploration and production activities. These permits, registrations or authorizations are subject to revocation, modification and renewal. Governmental authorities have the power to enforce compliance with these regulatory requirements, the provisions of required permits, registrations or other authorizations, and lease conditions, and violators are subject to civil and criminal penalties, including fines, injunctions or both. Failure to obtain or maintain a required permit may also result in the imposition of civil and criminal penalties. Third parties may have the right to sue to enforce compliance.

Some risk of costs and liabilities related to environmental, health and safety matters is inherent in our operations, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs or liabilities will not be incurred. In addition, it is possible that future developments, such as stricter requirements of environmental or health and safety laws and regulations affecting our business or more stringent interpretations of, or enforcement policies with

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respect to, such laws and regulations, could adversely affect us. To meet changing permitting and operational standards, we may be required, over time, to make site or operational modifications at our facilities, some of which might be significant and could involve substantial expenditures. There can be no assurance that material costs or liabilities will not arise from these or additional environmental matters that may be discovered or otherwise may arise from future requirements of law.

Our future performance is dependent upon our ability to identify, acquire and develop oil and gas properties.

Our future performance depends upon our ability to find, develop and acquire oil and gas reserves that are economically recoverable. Without successful exploration, exploitation or acquisition activities, we will not be able to develop reserves or generate revenues. No assurance can be given that we will be able to find and develop or acquire reserves on acceptable terms, or that commercial quantities of oil and gas deposits will be discovered sufficient to enable us to recover our exploration and development costs or sustain our business.

The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurances can be given that our exploitation and development activities will result in the discovery of any reserves. Our operations may be curtailed, delayed or canceled as a result of lack of adequate capital and other factors, such as title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties, or unusual or unexpected formations, pressures and/or work interruptions. In addition, the costs of exploitation and development may materially exceed initial estimates.

We can provide no assurance that oil and gas will be discovered in commercial quantities in any of the properties we currently hold interests in or properties in which we may acquire interests in the future. Our success will depend upon our ability to acquire working and revenue interests in properties upon which gas and oil reserves are ultimately discovered in commercial quantities. We do not have an established history of locating and developing properties that have oil and gas reserves.

The successful implementation of our business plan is subject to risks inherent in the oil and gas business.

Our oil and gas operations are subject to the economic risks typically associated with exploration, development and production activities, including the necessity of significant expenditures to locate and acquire properties and to drill exploratory wells. In addition, the cost and timing of drilling, completing and operating wells is often uncertain. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and production activities to be unsuccessful. This could result in a total loss of our investment in a particular property. If exploration efforts are unsuccessful in establishing proved reserves and exploration activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

We rely heavily upon reserve estimates when determining whether or not to invest in a particular oil or gas property.

The oil and gas reserve information that we use in evaluating oil and gas prospects is based on reserve estimates involving a great deal of uncertainty. Different reserve engineers may make different estimates of reserves and cash flows based on the same available data. Reserve estimates depend in large part upon the reliability of available geologic and engineering data which is inherently imprecise. Geologic and engineering data are used to determine the probability that a reservoir of oil and natural gas exists at a particular location, and whether oil and natural gas are recoverable from a reservoir. Recoverability is ultimately subject to the accuracy of data including, but not limited to, geological characteristics of the reservoir structure, reservoir fluid properties, the size and boundaries of the drainage area, reservoir pressure, and the anticipated rate of pressure depletion. The evaluation of these and other factors is based upon available seismic data, computer modeling, well tests and information obtained from production of oil and natural gas from adjacent or similar properties, but the probability of the existence and recoverability of reserves is less than 100% and actual recoveries of proved reserves usually differ from estimates.

Reserve estimates also require numerous assumptions relating to operating conditions and economic factors, including the price at which recovered oil and natural gas can be sold, the costs of recovery, assumptions concerning future operating costs, severance and excise taxes, development costs and workover and remedial costs, prevailing environmental conditions associated with drilling and production sites, availability of enhanced recovery techniques, ability to transport oil and natural gas to markets and governmental and other regulatory factors, such as taxes and environmental laws. A negative change in any one or more of these factors could result in quantities of oil and natural gas previously estimated as proved reserves becoming uneconomic. For example, a decline in the market price of oil or natural gas to an amount that is less than the cost of recovery of such oil and natural gas in a particular location could make production commercially

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impracticable. The risk that a decline in price could have that effect is magnified in the case of reserves requiring sophisticated or expensive production enhancement technology and equipment, such as some types of heavy oil. Each of these factors, by having an impact on the cost of recovery and the rate of production, will also affect the present value of future net cash flows from estimated reserves.

In addition, the 10% discount factor, which is required by the Securities and Exchange Commission ("SEC") to be used to calculate discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor based on interests rates in effect from time to time and risks associated with us or the oil and gas industry in general.

<u>Our ability to produce sufficient quantities of oil and gas from out properties may be adversely affected by a number of factors outside of our control.</u>

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling oil and gas wells involves the risk that the wells may be unproductive or that, although productive, that the wells may not produce oil and/or gas in economic quantities. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic if water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances.

There can be no assurance that oil and gas will be produced from the properties in which we have interests. In addition, the marketability of oil and gas which may be acquired or discovered may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection. We cannot predict how these factors may affect our business.

In addition, the success of our business is dependent upon the efforts of various third parties that we do not control. We rely upon various companies to assist us in identifying desirable oil and gas prospects to acquire and to provide us with technical assistance and services. We also rely upon the services of geologists, geophysicists, chemists, engineers and other scientists to explore and analyze oil and gas prospects to determine a method in which the oil and gas prospects may be developed in a cost-effective manner. In addition, we rely upon the owners and operators of oil rigs and drilling equipment to drill and develop our prospects to production. Although we have developed relationships with a number of third-party service providers, we cannot assure that we will be able to continue to rely on such persons. If any of these relationships with third-party service providers are terminated or are unavailable on commercially acceptable terms, we may not be able to execute our business plan.

<u>Market fluctuations in the prices of oil and gas could adversely affect our business.</u>

Prices for oil and gas tend to fluctuate significantly in response to factors beyond our control. These factors include, but are not limited to, the continued threat of war in the Middle East and actions of the Organization of Petroleum Exporting Countries and its maintenance of production constraints, the U.S. economic environment, weather conditions, the availability of alternate fuel sources, transportation interruption, the impact of drilling levels on crude oil and natural gas supply, an the environmental and access issues that limit future drilling activities for the industry.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. We do not currently engage in any hedging program to mitigate our exposure to fluctuations in oil and gas prices.

Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation of projects. We expect that commodity prices will continue to fluctuate significantly in the future.

Title deficiencies could render our leases worthless.

The existence of a material title deficiency can render a lease worthless and can result in a large expense to our business. It is our practice in acquiring oil and gas leases or undivided interests in oil and gas leases to forgo the expense of retaining lawyers to examine the title to the mineral interest to be placed under lease or already placed under lease. Instead, we rely upon the judgment of oil and gas lease brokers or landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease a specific mineral interest. This is customary practice in the oil and gas industry. However, we do not anticipate that we, or the person or company acting as operator of the wells located on the properties that we intend to lease, will obtain counsel to examine title to the lease until the well is about to be drilled. As a result, we may be unaware of deficiencies in the marketability of the title to the leases. Such deficiencies may render the lease worthless.

If we or our operators fail to maintain adequate insurance, our business could be materially and adversely affected.

Our operations will be subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. Any offshore operations that we engage in will be subject to a variety of operating risks peculiar to the marine environment, such as hurricanes or other adverse weather conditions, to more extensive governmental regulation, including regulations that may, in certain circumstances, impose strict liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations.

For projects in which we may act as the operator, we would maintain insurance coverage for our operations with policy limits and retention liability customary in the industry, including limited coverage for sudden environmental damages and for existing contamination. We do not believe that insurance coverage for environmental damages that occur over time or insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. As a result, we may be subject to liability or may lose substantial portions of our properties in the event of certain environmental damages.

In the projects in which we own a non-operating interest directly or own an equity interest in a limited partnership which owns a non-operating interest, the operator will be required to maintain insurance of various types to cover our operations with policy limits and retention liability customary in the industry. We believe the coverage and types of insurance maintained by the operators of such prospects are adequate and, therefore, have not acquired our own insurance coverage for such prospects. The occurrence of a significant adverse event on such prospects that is not fully covered by insurance could result in the loss of all or part of our investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

Complying with environmental and other government regulations could be costly and could negatively impact our production.

Our business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. The laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling, restrict the substances that can be released into the environment with drilling and production activities, limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas, require that reclamation measures be taken to prevent pollution from former operations, require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and remediating contaminated soil and groundwater, and require remedial measures to be taken with respect to property designated as a contaminated site.

Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We maintain limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could occur that result in stricter standards and enforcement, larger fines

and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

ITEM 3. Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

An evaluation was performed under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Notwithstanding the foregoing, there can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons associated with us to disclose material information otherwise required to be set forth in our periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date that management, including the Chief Executive Officer and the Chief Financial Officer, completed their evaluation.

PART II Other Information

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1

Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)

31.2

Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)

32.1

Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2

Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Sections 13 or 15 (d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 9th day of February, 2007.

International Energy, Inc.

/s/ Derek Cooper

Derek Cooper

President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

Signature

Title

Date

/s/ Derek Cooper

Director , President,

February 9, 2007

Derek Cooper

Chief Executive Officer

/s/ Harmel S. Rayat

Director, Secretary/Treasurer,

February 9, 2007

Harmel S. Rayat

Principal Financial Officer