Iona Energy Company Limited
Interim Condensed Consolidated Financial Statements
March 31,
2011
(Unaudited)

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Contents

Interim Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations and Comprehensive loss	3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6 - 23

Notice for National Instrument 51-102

The interim financial statements and notes thereto for the three months ended March 31, 2011 are prepared by management and have not been independently audited or reviewed by the Company's auditors.

Iona Energy Company Limited
Condensed Consolidated Statements of Financial Position

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current				
Cash		$ 18,109,987	$ 1,155,386	$ 64,539
Accounts receivable and other		440,670	280,008	-
Prepaid expenses		31,655	18,402	-
		18,582,312	1,453,796	64,539
Restricted cash	4	44,525,143	52,007	52,007
Exploration and evaluation assets	5	5,544,254	1,895,783	1,451,849
Property and equipment	6	500	-	-
		$ 68,652,208	$ 3,401,586	$ 1,568,395
Liabilities				
Current				
Accounts payable and accrued liabilities		$ 1,210,228	$ 243,138	$ 192,364
Shareholders' Equity				
Share capital	7	68,906,195	3,780,224	1,119,035
Shares to be issued for debt		-	-	516,708
Deficit		(1,346,798)	(621,776)	(259,712)
Accumulated other comprehensive income		(117,417)	-	-
		67,441,980	3,158,448	1,376,031
Commitments and Contingencies	9			
Subsequent Events	13			
		$ 68,652,208	$ 3,401,586	$ 1,568,395

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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Iona Energy Company Limited
Condensed Consolidated Statements of Operations and Comprehensive Loss

For the three months ended March 31,	Notes		2011		2010
Expenses					
General and administrative		$	**534,715**	$	17,557
Foreign exchange (gain) loss			**(2,228)**		-
Pre-license costs	**5**		**193,221**		-
			725,708		17,557
Other item					
Finance income			**686**		8
Net loss for the period			**(725,022)**		(17,549)
Foreign currency translation adjustment			**(117,417)**		-
Net and comprehensive loss for the period		$	**(842,439)**	$	(17,549)
Net loss per share - basic and diluted		$	**(0.015)**	$	(0.001)
Weighted average shares outstanding - basic and diluted (1)			**49,754,919**		11,728,645

(1) Options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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Iona Energy Company Limited
Condensed Consolidated Statements of Changes in Shareholders' Equity

		Share Capital		Debt Settlement		Accumulated other comprehensive income		Deficit		Total Equity
Balance January 1, 2011	$	3,780,224	$	-	$	-	$	(621,776)	$	3,158,448
Net loss for the period		-		-		-		(725,022)		(725,022)
Foreign currency presentation into translation currency		-		-		(117,417)		-		(117,417)
Issue of shares (net of issue costs)		65,125,971		-		-		-		65,125,971
Balance March 31, 2011	$	68,906,195	$	-	$	(117,417)	$	(1,346,798)	$	67,441,980

		Share Capital		Debt Settlement		Accumulated other comprehensive income		Deficit		Total Equity
Balance January 1, 2010	$	1,119,035	$	516,708	$	-	$	(259,712)	$	1,376,031
Net loss for the period		-		-		-		(17,549)		- (17.549)
Collection of share purchase loan		516,708		(516,708)		-		-		-
Issue of shares (net of issue costs)		(1,607		-		-		-		(1,607)
Balance March 31, 2010	$	1,634,136	$	-	$		$	(277,261)	$	1,356,875

		Share Capital		Debt Settlement		Accumulated other comprehensive income		Deficit		Total Equity
Balance January 1, 2010	$	1,119,035	$	516,708	$	-	$	(259,712)	$	1,376,031
Net loss for the year		-		-		-		(362,064)		- (362,064)
Collection of share purchase loan		516,708		(516,708)		-		-		-
Issue of shares (net of issue costs)		2,144,481		-		-		-		2,144,481
Balance December 31, 2010	$	3,780,224	$	-	$		$	(621,776)	$	3,158,448

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The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Iona Energy Company Limited
Condensed Consolidated Statements of Cash Flows

For the three months ended March 31,		**2011**		2010
Cash flows from (used in) operating activities				
Net loss for the period	$	**(725,022)**	$	(17,549)
Changes in non-cash working capital balances:				
Accounts receivable		**(160,662)**		-
Prepaid expenses		**(13,253)**		-
Accounts payable and accrued liabilities		**967,090**		86,609
Cash flow used in operating activities		**68,153**		69,060
Cash flows from (used in) financing activities				
Issue of common shares, net of issue costs		**65,125,971**		(1,740)
Restricted cash		**(44,473,136)**		-
Cash flow from financing activities		**20,652,835**		(1,740)
Cash flows from (used in) investing activities				
Property and equipment		**(500)**		-
Exploration and evaluation		**(3,648,471)**		(77,352)
Cash flow provided by (used in) investing activities		**(3,648,971)**		(77,352)
Effect of exchange rate changes on cash		**(117,417)**		-
Increase (decrease) in cash		**16,954,601**		(10,032)
Cash, beginning of year		**1,155,386**		64,539
Cash, end of year	$	**18,109,987**	$	54,507
Supplemental information				
Interest paid	$	**-**	$	-
Taxes paid	$	**-**	$	-

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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1. Corporate Information

Iona Energy Company Limited ("Iona" or "the Company") is a private junior oil and gas company engaged the evaluation, acquisition, exploration and development of oil and gas properties in the United Kingdom's North Sea and in Alaska.

Iona was incorporated under the *Business Corporations Act* (Alberta) on January 16, 2008. The head office of the Company is located at Bankers Hall, West Tower, Suite 1000, 888 - 3rd Street S.W., Calgary, Alberta, T2P 5C5. The registered office of Iona is located at 1600, 333-7th Avenue S.W., Calgary, Alberta T2P 2Z1.

The following sets out the subsidiaries of the Company and the Company's ownership interest in those subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation	Ownership
Iona Energy Corporation (US) Limited	Delaware, USA	100%
Iona Energy Corporation (UK) Limited	United Kingdom	100%

2. Basis of Presentation

Statement of compliance

In conjunction with the Company's annual audited Consolidated Financial Statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these interim Condensed Consolidated Financial Statements present Iona's initial financial results of operations and financial position under IFRS as at and for the three months ended March 31, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim Condensed Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these interim Condensed Consolidated Financial Statements resulted in selected changes to Iona's accounting policies as compared to those disclosed in the Company's annual audited Consolidated Financial Statements for the period ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to Iona's accounting policies is disclosed in Note 12 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the twelve months ended December 31, 2010.

A summary of Iona's significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 12.

These interim Condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on June 29, 2011.

Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Iona Energy Company Limited. The functional currencies of the Company's foreign subsidiaries are US dollars for Iona Energy Corporation (US) Limited and British Pound Sterling ("GBP") for Iona Energy Corporation (UK) Limited.

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2. Basis of Presentation - continued

Basis of measurement
These interim Condensed Consolidated Financial Statements have been prepared on a historical cost basis except for financial instruments and share based payment transactions that are measured at fair value.

Use of estimates and judgments
The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these interim consolidated financial statements are as follows:

Amounts that will be recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes-Merton model which is based on significant assumptions such as volatility, dividend yield and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by Company's entities.

Basis of consolidation:
(i) Subsidiaries:
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent

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3. Summary of Significant Accounting Policies – continued

liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of earnings and comprehensive income.

(ii) Jointly controlled operations and jointly controlled assets:
Many of the Company's oil and natural gas activities involve jointly controlled assets. The interim consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Financial instruments:

(i) Non-derivative financial instruments:
Non-derivative financial instruments comprise accounts receivables, cash and cash equivalents, bank debt, accounts payable and accrued liabilities, and cash dividends payable. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents:
Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

Financial assets at fair value through earnings:
An instrument is classified at fair value through earnings if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through earnings if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in earnings when incurred. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognized in earnings.

Compound instruments:
Compound instruments are separated into their liability and equity components using the effective interest rate method. The liability component accretes up to the principal balance at maturity. The equity component will be reclassified to share capital on conversions. Any balance in equity that remains after the settlement of the liability is transferred to contributed surplus. The equity portion is recognized net of deferred income taxes.

Other:
Other non-derivative financial instruments, such as accounts receivable, bank debt, accounts payable and accrued liabilities and cash dividends payable, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:
The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through earnings and are recorded on the statement of financial position at fair value. Transaction costs are recognized in earnings when

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3. Summary of Significant Accounting Policies – continued

incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Property, plant and equipment and exploration and evaluation assets:

Exploration and evaluation expenditures:
Pre-licence costs are recognized in the statement of earnings and comprehensive income as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property, plant and equipment. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units ("CGU's").

Development and production costs:
Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGU's for impairment testing. The Company has grouped its exploration and evaluation assets into the following two CGU's: Alaska, USA and Orlando offshore (United Kingdom) as at March 31, 2011.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Iona will capitalize the cost of major plant turnarounds and overhauls and depreciate these costs over their estimated useful life.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of earnings and comprehensive income.

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3. Summary of Significant Accounting Policies – continued

Subsequent costs:
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in operating expenses as incurred.

Depletion and depreciation:
The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For interim financial statements internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

Leased assets will be depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Goodwill:
Goodwill arises on the acquisition of businesses, subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is charged immediately in earnings.

Impairment:
(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of earnings and comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of earnings and comprehensive income.

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3. Summary of Significant Accounting Policies – continued

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. Exploration and evaluation assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of earnings and comprehensive income. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share based compensation:

The Company has established a share based compensation plan (the "Plan") comprised of a Stock Option Plan (refer to note 13 (b) and (c) for further details of the Plan). The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost

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3. Summary of Significant Accounting Policies – continued

attributed to stock options granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of option or units that vest. Upon the settlement of the stock options the previously recognized value in contributed surplus is recorded as an increase to shareholders' capital.

Provisions:
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Foreign currencies:
The functional currency for each entity is the currency of the primary economic environment in which it operates. Foreign currency denominated transactions are translated into the entity's functional currency as follows; monetary items denominated in foreign currencies are translated into its functional currency at the rates of exchange at the period end date. Non-monetary items are translated to the functional currency at the historical exchange rate. Any gains or losses are recorded in the consolidated statement of net income (loss).

For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Canadian dollars. For the accounts of foreign operations, assets and liabilities are translated to Canadian dollars at rates prevailing at the period end date. Revenues and expenses are translated to Canadian dollars using the average rate over the period. Translation gains or losses relating to the foreign operations are included in the consolidated statement of comprehensive income (loss) and accumulated in shareholders' equity on the balance sheet.

Revenue:
Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Finance expenses:
Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning obligations, accretion and amortization of issue costs on the convertible debentures, and realized and unrealized gains and losses on held for trading investments.

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3. Summary of Significant Accounting Policies – continued

Income tax:
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of earnings and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share:
Basic earnings per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted.

New standards and interpretations not yet adopted:
In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently evaluating the impact of adopting IFRS 9.

IFRS 7 *Financial Instruments* includes amendments issued by the IASB on *Disclosures – Transfers of Financial Assets* that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosure where transfers of financial assets are not evenly distributed throughout the period. These amendments are effective for annual periods beginning on or after July 1, 2011. Early application of the amendments is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

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3. Summary of Significant Accounting Policies – continued

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation would be removed, equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements.

4. Restricted Cash

(a) At March 31, 2011, the Company had $52,007 (December 31, 2010 and January 1, 2010 - $52,007), of cash held as deposits for work commitment guarantees contained in exploration contracts in Alaska.

(b) Pursuant to the Subscription Receipt Agreement (Note 7(b)(iv)), $44,473,136 (net of agents' commissions of $3,047,919) is being held in trust and will be released upon the successful closing of certain exploration rights in the North Sea. On May 31, 2011, the Company closed the Trent and Tyne transaction (Note 9) and the funds were released to the Company on May 31, 2011.

5. Exploration and Evaluation Assets

Balance, January 1, 2010	$	1,451,849
Additions		443,934
Balance, December 31, 2010		1,895,783
Additions		3,648,471
Balance, March 31, 2011	$	5,544,254

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Alaska, USA and Orlando offshore (United Kingdom) licenses. During the first quarter of 2011 no costs were considered to be impaired, however, the areas have not yet determined to be technically feasible and commercially viable. During first quarter of 2011, the Company expensed $193,221 (2010 - $nil) related to pre-license costs.

6. Property and Equipment

Balance, January 1, 2010	$	-
Additions		-
Balance, December 31, 2010		-
Additions		500
Depreciation		-
Balance, March 31, 2011	$	500

All of the Company's property and equipment consists of office equipment and is located in the United Kingdom.

DRAFT

7. Share Capital

(a) Authorized

Unlimited number of Common Shares without nominal or par value
Unlimited number of Preferred shares, issuable in series

(b) Issued

	2011			2010		
Common shares	**Shares**		**Amounts**	Shares		Amounts
Opening balance	**22,575,065**	**$**	**3,751,129**	9,145,105	$	1,119,035
Issued for cash *(i)*	**-**		**-**	9,085,491		1,998,808
Issued to settle debts and accounts payable *(ii)*	**-**		**-**	4,344,469		868,894
Conversion of subscription receipts *(iv)*	**38,333,333**		**23,000,000**	-		-
Share issue costs	**-**		**-**	-		(235,608)
Balance end of period	**60,908,398**	**$**	**26,751,129**	22,575,065	$	3,751,129
Warrants						
Opening balance	**264,500**	**$**	**29,095**	-	$	-
Issued pursuant to a private placement *(iii)*	**-**		**-**	264,500		29,095
Balance end of period	**264,500**	**$**	**29,095**	264,500	$	29,095
Subscription Receipts						
Opening balance	**-**	**$**	**-**	-	$	-
Issued *(iv)*	**116,485,090**		**69,891,054**	-		-
Converted into common shares *(iv)*	**(38,333,333)**		**(23,000,000)**	-		-
Share issue costs	**-**		**(4,765,083)**	-		-
	78,151,757		**42,125,971**	-		-
		$	**68,906,195**		$	3,780,224

(i) During 2010 the Company issued 9,085,491 shares pursuant to private placements at a price of $0.22 per share for gross proceeds of $1,998,808.

(ii) During the year ended December 31, 2010 the Company settled amounts owing to consultants of the Company by issuing 4,344,469 common shares of the Corporation at a price of $0.20 per share on May 31, 2010 with the Company incurring costs of $352,186 in the current year (2009 - $202,637 and 2008 - $314,071). Of the costs to be settled with shares in 2010, $49,515 (2009 - $87,673 and 2008 - $38,222) was expensed and $302,671 (2009 - $114,964 and 2008 - $275,849) was capitalized with property and equipment.

(iii) The Company also issued 264,500 warrants to brokers who assisted with the private placements in 2010. The warrants are exercisable into a common share of the Company at a strike price of $0.22 per warrant and expire in 2013. The warrants were valued at $29,095 using the Black Scholes option pricing model, recorded as a share issuance costs with the following assumptions: *dividend yield – Nil, expected volatility 75%, risk free rate of return 1.53%, weighted average life – 3 years.*

(iv) On March 10, 2011, the Corporation entered into a Subscription Receipt Agreement (the "Agreement") to issue 116,485,090 subscription receipts for $69,891,054. Under the terms of the Agreement, each subscription receipt will entitle the holder to 1 common share and 0.2 liquidity warrants (assuming certain conditions are met) where each liquidity warrant entitles the holder to receive 1 common share if the Corporation does not complete a going public transaction by June 30, 2011. Pursuant to the Agreement, $23,000,000 was released upon closing of the acquisition of certain exploration rights in the North Sea (the Orlando Agreement) on March 10, 2011 with the remainder being released when a second exploration rights agreement and/or acquisition ("the Trent and Tyne transaction") is successfully negotiated and closed (Note 9).

(v) Effective August 5, 2010 the Directors of the Company passed a resolution to consolidate the Company's 27,679,147 issued and outstanding common shares on a 2 for 1 basis. These financial statements and related discussions reflect the rollback on a retroactive basis.

DRAFT

8. Related Party Transactions

Except as disclosed elsewhere in these financial statements the Company had the following related party transactions:

(a) During the period, the Company was charged $273,402 in legal fees of which $98,000 related to share issuance costs by a law firm where a director of the Company is a partner, of which $260,573 is included in accounts payable and accrued liabilities as at March 31, 2011.

(b) During the year ended December 31, 2010, $98,508 was loaned to an officer of the Company to purchase shares and included in accounts receivable. The amount was collected during the current period.

Except as disclosed all related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties.

9. Commitments and Contingencies

The Company has the following contractual obligations.

	As at March 31, 2011				
	Payments Due in Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
U.S. Dollars					
Exploration leases	**92,160**	11,520	23,040	23,040	34,560
Drilling, completion, facility construction	**11,050,000**	11,050,000	-	-	-
Seismic	**25,000**	25,000	-	-	-
Total	**$ 11,167,160**	$ 11,086,520	$ 23,040	$ 23,040	$ 34,560
March 31, 2011 CAD/USD exchange rate	**0.9718**	0.9718	0.9718	0.9718	0.9718
Contractual Obligations in Canadian Dollars	**$ 10,852,246**	$ 10,773,880	$ 22,390	$ 22,390	$ 33,585

The Corporation's mineral lease rentals are $ 11,458 per year for a ten-year term expiring in 2018.

The Corporation has a commitment to drill one well in the Orlando block (North Sea) during 2011 as a result of the acquisition that closed March 10, 2011 and will fund a GBP£21,200,000 work program in the Trent & Tyne block (North Sea) during 2011 as a result of the acquisition that closed May 31, 2011. The Corporation also has a commitment to acquire and process USD$25,000 of seismic relating to the East Irish Sea property by the end of 2011.

10. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to, credit, and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

DRAFT

10. Financial Instruments - continued

(a) Commodity Price Risk
The Company will be subject to commodity price risk for the sale of its production. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of petroleum commodity prices. To date the Company has no production and has not entered into any forward commodity contracts.

(b) Market Risk
Market risk is comprised of two components: currency risk and interest rate risk.

(c) Credit Risk
Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge its obligations as they become due. The Company's financial assets exposed to credit risk are cash, restricted cash, and accounts receivable. Cash is placed with major financial institutions. The maximum credit risk is approximate to the carrying value of such financial instruments.

(d) Interest Risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have impacted the cash flows of the Company during the period ended March 31, 2011 by approximately $nil (2010 - $nil).

(e) Foreign Currency Exchange Risk
The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currency other than the Canadian Dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Corporation incurs expenditures in Pound sterling, Euros, United States dollars and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the period ended March 31, 2011, December 31, 2010, or thereafter.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash and restricted cash balances at March 31, 2011 would have impacted the cash flows of the Company during the quarter ended March 31, 2011 by approximately $115,209.

(f) Fair Value of Financial Instruments

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

DRAFT

10. Financial Instruments - continued

Cash and restricted cash, has been classified as Level 1.

All financial assets (except for cash and cash equivalents which are classified as held for trading), are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. The marketable securities have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the period ended March 31, 2011.

(g) Liquidity Risk
Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, oil production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

11. Capital Risk Management

The Company manages its capital with the objective to continue as a going concern, create investor confidence, and meet its capital commitments and to strengthen its working capital position. The capital structure of the Company is primarily composed of shareholders' equity. The Company's strategy is to access capital, primarily through equity issuances, in order to maintain a strong capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile.

In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. Bank debt may be added in future periods. The Company is not currently subject to any externally imposed covenants.

The Corporation's capital includes the following:

	2011	2010
Shareholder's equity	**$ 67,441,980**	$ 3,158,448

DRAFT

12. Transition to IFRS

Iona's accounting policies under IFRS differ from those followed under previous GAAP as described in note 3. These accounting policies have been applied for the three months ended March 31, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three months ended March 31, 2010 and the comparative information for the year ended December 31, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit category on the statement of financial position when appropriate.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which Iona began applying IFRS was January 1, 2010 (the "transition date"). IFRS 1 requires that a first time adopter use the same accounting policies in its opening IFRS balance sheet and for all subsequent periods presented in its first IFRS financial statements. The adoption of IFRS includes full retrospective application of all IFRS standards which are effective at the end of its first IFRS reporting period, which for Iona will be December 31, 2011. In order to facilitate an effective adoption of IFRS there are a number of discretionary exemptions as well as mandatory exemptions from retrospective application of a number of IFRS standards. The exemptions used were:

Mandatory exemption with respect to estimates – Hindsight was not used to create or revise estimates. The estimates previously made by the Company under previous GAAP were not revised for the application of IFRS.

Full Cost Accounting – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using costs incurred as of January 1, 2010 to allocate the costs of exploration and evaluation assets to CGUs.

The following provides summary reconciliations of Iona's Statement of Financial Position under Canadian GAAP and IFRS to illustrate the impact on adoption. The adoption of IFRS did not have an impact on the Company's statement of operations, shareholders equity or impact on the total operating, investing, or financing cash flows (statement of cash flows), therefore, reconciliations have not been presented.

DRAFT

12. Transition to IFRS - continued

IFRS Opening Statement of Financial Position (Reconciliation of Equity) as at January 1, 2010:

As at January 1, 2010		Previous Canadian GAAP	Effect of Transition to IFRS	Note		IFRS
Assets						
Current						
Cash	$	64,539			$	64,539
Accounts receivable		-				-
Prepaid expenses and other		-				-
		64,539				64,539
Restricted cash		52,007				52,007
Exploration and evaluation assets		-	1,451,849	(a)		1,451,849
Property and equipment		1,451,849	(1,451,849)	(a)		-
		1,568,395	-			1,568,395
Liabilities						
Current						
Accounts payable and accrued liabilities		192,364				192,364
Shareholders' Equity						
Share capital		1,119,035				1,119,035
Share issued for debt		516,708				516,708
Contributed surplus		-				-
Deficit		(259,712)				(259,712)
		1,376,031				1,376,031
	$	1,568,395	-		$	1,568,395

DRAFT

12. Transition to IFRS - continued

Statement of Financial Position (Reconciliation of Equity) as at March 31, 2010:

As at March 31, 2010		Previous Canadian GAAP	Effect of Transition to IFRS	Note		IFRS
Assets						
Current						
Cash	$	54,507			$	54,507
Accounts receivable		-				-
Prepaid expenses and other		-				-
		54,507				54,507
Restricted cash		52,007				52,007
Exploration and evaluation assets		-	1,529,333	(a)		1,529,333
Property and equipment		1,529,333	(1,529,333)	(a)		-
		1,635,848	-			1,635,848
Liabilities						
Current						
Accounts payable and accrued liabilities		278,973				278,973
Shareholders' Equity						
Share capital		1,634,003				1,634,003
Share issued for debt		-				-
Contributed surplus		-				-
Deficit		(277,128)				(277,128)
		1,356,875				1,356,875
	$	1,635,848	-		$	1,635,848

DRAFT

12. Transition to IFRS - continued

Statement of Financial Position (Reconciliation of Equity) as at December 31, 2010:

As at December 31, 2010		Previous Canadian GAAP	Effect of Transition to IFRS	Note		IFRS
Assets						
Current						
Cash	$	1,155,386			$	1,155,386
Accounts receivable		280,008				280,008
Prepaid expenses and other		18,402				18,402
		1,453,796				1,453,796
Restricted cash		52,007				52,007
Exploration and evaluation assets		-	1,895,783	(a)		1,895,783
Property and equipment		1,895,783	(1,895,783)	(a)		-
		3,401,586	-			3,401,586
Liabilities						
Current						
Accounts payable and accrued liabilities		243,138				243,138
Shareholders' Equity						
Share capital		3,780,224				3,780,224
Share issued for debt		-				-
Deficit		(621,776)				(621,776)
		3,158,448				3,158,448
	$	3,401,586	-		$	3,401,586

(a) IFRS 1 election for full cost oil and gas entities The Company elected to use an IFRS 1 exemption whereby the previous GAAP full cost pool was used to measure exploration and evaluation assets and development and production assets on transition to IFRS with the transfer of $1,451,849 at January 1, 2010, $1,529,333 at March 31, 2010 and $1,895,783 at December 31, 2010 to the exploration and evaluation assets which have been reclassified from the property, and equipment full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP.

DRAFT

13. Subsequent Events

Except as disclosed elsewhere in these financial statements the Company had the following subsequent events:

(a) On April 19, 2011, the Company and Northern Lights Acquisition Corp. ("Northern") entered into an amalgamation agreement. Pursuant to the exchange ratio in the amalgamation agreement the Northern shareholders will hold 1,800,412 shares of the amalgamated company and Iona shareholders will hold 139,060,155 shares of the amalgamated company (assuming conversion of all 116,485,090 Iona subscription receipts into common shares). The proposed Amalgamation Agreement is subject to the TSX Venture Exchange and shareholders approvals which was received on May 27, 2011. The Company's shares commenced trading on the TSX Venture Exchange on June 8, 2011.

(b) On May 27, 2011 the shareholders of the Company approved a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. Options granted under the plan vested immediately. The options are non-transferable if not exercised. The exercise price is based on the Company's common shares prior to the day of the grant, which may be different from the closing price of such shares on the day of grant for options granted to date, to date the exercise price has not been materially different from the trading price of the shares on the grant date.

(c) Pursuant to the terms of its stock option plan, Iona's board of directors has approved the granting of options to purchase an aggregate of 9.55 million common shares at a price of 60 cents per share. The options will have a term of five years and time-vesting provisions with 25 per cent vesting immediately and a further 25 per cent vesting on the first, second and third anniversaries of the date of grant.

(d) On May 31, 2011 the Company signed a Sale and Purchase Agreement with Perenco UK Limited ("Perenco") regarding two producing Southern North Sea gas fields, the Trent Field (Block 43.24 – License P685) and the Tyne Field (Block 44/18 – License P609) (herein referred to as Trent & Tyne). The Company will fund a £21,200,000 work program on the assets to gain a 20% interest in both Trent & Tyne. The planned work program is comprised of a re-entry into the existing T5 well and sidetrack to an up-dip location (the "T% Sidetrack Well), intended by Perenco to be drilled in 2011. The Corporation's financial exposure will be cost-capped such that, in the event the T5 Sidetrack Well exceeds the £21,200,000, any additional costs related to the well will be borne 100% by Perenco. Additionally, with respect to an area known as Tyne North West, Iona will have the option to increase its working interest in Trent & Tyne by a further 17.5% (37.5% in total), by committing to fund the drilling of a second well with Perenco as Operator. This drilling program is cost-capped to Iona at a £24,50,000, such that any cost overrun beyond this amount will be borne 100% b Perenco.

The Trent & Tyne agreement with Perenco is dated effective September 1, 2010, therefore Iona will receive production revenue and pay its share of production related costs associated with approximately 4MMscfd of net gas production as a result of its 20% working interest. The Company anticipates drilling the "T5 Sidetrack Well" during the third quarter of 2011, thereby increasing Iona's net Trent & Tyne production to 8MMscfd (2P @ 20%), and furthering this to 14.2MMscfd (2P@37.5%) with their commitment to drill Tyne North West. A successful completion of Tyne North West, which the Company hopes to drill and tie back by the third quarter of 2012, has the potential to increase production by an incremental 11MMscfd.