Iona Energy Inc.
Interim Condensed Consolidated Financial Statements
September 30, 2011
(Unaudited)

Contents

Iona Energy Inc.
Condensed Consolidated Statements of Financial Position
(Unaudited)

$Cdn	Notes		**Sept 30, 2011**		December 31, 2010		January 1, 2010
Assets							
Current							
Cash		$	**47,394,224**	$	1,155,386	$	64,539
Accounts receivable			**313,135**		280,008		-
Prepaid expenses			**200,476**		18,402		
			47,907,835		1,453,796		64,539
Restricted cash	**3**		**1,325,831**		52,007		52,007
Exploration and evaluation assets	**4**		**20,197,837**		1,472,231		1,451,849
Property and equipment	**5**		**18,504**		-		-
		$	**69,450,007**	$	2,978,034	$	1,568,395
Liabilities							
Current							
Accounts payable and accrued liabilities		$	**2,198,780**	$	243,138	$	192,364
Shareholders' Equity							
Share capital	**6**		**69,920,898**		3,780,224		1,635,743
Contributed surplus			**1,353,873**		-		-
Accumulated other comprehensive income			**1,047,912**		-		-
Deficit			**(5,071,456)**		(1,045,328)		(259,712)
			67,251,227		2,734,896		1,376,031
		$	**69,450,007**	$	2,978,034	$	1,568,395
Commitments and Contingencies	**8**						

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

Iona Energy Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

$Cdn	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Expenses					
General and administrative		$ **859,611**	$ 30,734	$ **3,755,643**	$ 109,695
Pre-license costs	**4**	**31,360**	75,422	**395,803**	230,032
Foreign exchange loss/(gain)		**(272,933)**	835	**(107,692)**	835
		618,038	106,991	**4,043,754**	340,562
Other item					
Finance income		**11,192**	504	**17,626**	521
Net loss for the period		**606,846**	106,487	**4,026,128**	340,041
Unrealized foreign exchange loss on net investments		**(2,499,453)**	-	**(1,047,912)**	-
Comprehensive loss (income) for the period		$ **(1,892,607)**	$ 106,487	$ **2,978,216**	$ 340,041
Net loss per share - basic and diluted		$ **0.004**	$ 0.006	$ **0.037**	$ 0.024
Weighted average shares outstanding - basic and diluted (1)		**140,860,566**	18,767,701	**110,023,142**	14,459,126

(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.

$Cdn	Share Capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Equity
Balance January 1, 2011	$ 3,780,224	$ -	$ -	$ (1,045,328)	$ 2,734,896
Net loss for the period	-		-	(4,026,128)	(4,026,128)
Share based payments	-	1,353,873	-	-	1,353,873
Foreign currency translation	-	-	1,047,912	-	1,047,912
Issue of shares (net of issue costs)	65,060,428	-	-	-	65,060,428
Issued on the acquisition of Northern Lights Acquisition Corp. (Note 1)	1,080,246	-	-	-	1,080,246
Balance September 30, 2011	$ 69,920,898	$ 1,353,873	$ 1,047,912	$ (5,071,456)	$ 67,251,227

	Share Capital	Other	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	-	-	-	(340,040)	(340,040)
Share issued via debt settlement	516,708	(516,708)	-	-	-
Issue of shares (net of issue costs)	1,927,310	-	-	-	1,927,310
Balance September 30, 2010	$ 3,563,053	$ -	$	$ (599,752)	$ 2,963,301

	Share Capital	Other	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	-	-	-	(785,616)	(785,616)
Share issued via debt settlement	868,894	(516,708)	-	-	352,186
Issue of shares (net of issue costs)	1,792,295	-	-	-	1,792,295
Balance December 31, 2010	$ 3,780,224	$ -	$	$ (1,045,328)	$ 2,734,896

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

Iona Energy Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

$Cdn	Nine Months Ended September 30	
	2011	2010
Cash flows from (used in) operating activities		
Net loss for the period	**$ (4,026,128)**	$ (340,041)
Items not involving cash:		
Depreciation	**5,994**	-
Excess of consideration over net assets acquired on capital transaction (Note 1)	**525,341**	-
Share based payments	**1,353,873**	-
	(2,140,920)	(340,041)
Changes in non-cash working capital balances:		
Accounts receivable	**(246,881)**	(19,800)
Prepaid expenses	**(182,074)**	-
Accounts payable and accrued liabilities	**1,494,467**	(90,010)
Cash flow used in operating activities	**(1,075,408)**	(449,850)
Cash flows from (used in) financing activities		
Issue of common shares, net of issue costs	**65,060,428**	1,927,310
Cash acquired on capital transaction (Note 1)	**554,905**	-
Changes in non-cash working capital balances	**280,008**	-
Cash flow from financing activities	**65,895,341**	1,927,310
Cash flows from (used in) investing activities		
Changes in non-cash working capital balances	**461,175**	-
Expenditures on property and equipment	**(24,498)**	-
Expenditures on exploration and evaluation	**(18,399,767)**	(20,381)
Restricted cash	**(1,273,824)**	-
Cash flow provided by (used in) investing activities	**(19,236,914)**	(20,381)
Effect of exchange rate changes on cash	**655,819**	-
Increase (decrease) in cash	**46,238,838**	1,457,078
Cash, beginning of period	**1,155,386**	64,539
Cash, end of period	**$ 47,394,224**	$ 1,521,617
Supplemental information		
Interest paid	**$ -**	$ -
Taxes paid	**$ -**	$ -

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

1. Corporate Information

Iona Energy Inc. ("Iona" or "the Company") is a publicly traded junior oil and gas Company on the TSX Venture Exchange ("TSX-V") under the symbol INA engaged in the evaluation, acquisition, exploration and development of oil and gas properties in the United Kingdom's North Sea and in Alaska.

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. The proposed amalgamation agreement was 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.

Iona was formed under the *Business Corporations Act* (Alberta) on May 27, 2011 via the amalgamation of Iona Energy Company Limited ("IECL") and Northern, a TSX-V Capital Pool Company which had no operations and therefore does not constitute a business. IECL was incorporated under the *Business Corporations Act* (Alberta) on January 16, 2008 and accordingly, the transaction has been accounted for as a capital transaction with IECL being the continuing entity. The condensed consolidated financial statements of the combined entity are issued under the name of the amalgamated entity, being Iona, but are a continuation of the historical financial statements of IECL. The deemed acquisition of Northern acquired on May 27, 2011 included the following:

Net assets acquired:	
Cash	$ 554,905
Consideration:	
1,800,411 common shares	$ 1,080,246
Excess of consideration over net assets acquired included in statement of operations	$ 525,341

The head office of Iona is located at Bankers Hall, West Tower, Suite 1000, 888 - 3rd Street S.W., Calgary, Alberta, T2P 5C5. The registered office of the Company 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 and nine months ended September 30, 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"). These financial statements should be read in conjunction with the year end financial statements for the year ended December 31, 2010, the three months ended March 31, 2011 and the six months ended June 30, 2011, filed by the Company on SEDAR (www.sedar.com).

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 of the interim financial statements for the three months ended March 31, 2011 and Note 11 of these financial statements.

A summary of Iona's significant accounting policies under IFRS is presented in Note 3 of the interim financial statements for the three months ended March 31, 2011. 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 Company's Board on November 28, 2011.

Functional and presentation currency
These condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Iona Energy Inc. 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.

Basis of measurement
The interim unaudited condensed consolidated financial statements have been prepared on a going concern basis, under the historical cost convention.

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:

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. With respect to the Trent & Tyne transaction (Note 4), the Company determined that the risks and rewards of ownership do not pass until it fulfills its contractual drilling obligation to the vendor and at that point in time the Company will commence recording its share of net production revenues during the reporting period.

2. Basis of Presentation - continued

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.

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 model which is based on significant assumptions such as volatility, dividend yield and expected term. These are recognized over the vesting term and the underlying options.

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. Restricted Cash

(a) At December 31, 2010 and September 30, 2011, the Company had $52,007 of cash held as deposits for work commitment guarantees contained in exploration contracts in Alaska.

As of September 30, 2011, the Company had $1,273,824 of restricted cash relating to net production revenues from the Trent & Tyne properties which will be held in trust until the Company completes its drilling commitment (Note 4).

4. Exploration and Evaluation Assets

Balance, January 1, 2010	$	1,451,849
Additions		20,382
Balance, December 31, 2010		1,472,231
Additions		18,399,767
Effect of changes in exchange rate		325,839
Balance September 30, 2011	$	20,197,837

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Alaska, USA and Orlando offshore (United Kingdom) licenses. As at September 30, 2011 no costs were considered to be impaired, however, the areas have not yet determined to be technically feasible and commercially viable. During three and nine month periods ended September 30, 2011, the Company expensed $31,360 and $395,803, respectively (2010 - $75,422 and $230,032) related to pre-license costs.

4. Exploration and Evaluation Assets - continued

On March 14, 2011, the Company acquired a 35% working interest in the non-producing Orlando lease located in the United Kingdom via the payment of US$3.0 million and assumption of a US$11 million work commitment (Note 8).

On May 27, 2011, the Company closed the Trent & Tyne field cost-capped work commitment of $32,851,520 (£21,200,000) with Iona earning a 20% non-operated working interest in the field upon the completion of the work commitment by Iona. Also, Iona shall assume its share of related Trent and Tyne field decommissioning liabilities upon completion of the work commitment. The effective date of the transaction is September 1, 2010. The net production from the effective date of September 1, 2010 until completion of the work commitment by Iona will be paid to Iona by the operator upon completion of the work commitment. As of September 30, 2011, net production revenue and related value added tax of $1,273,824 is being held in trust by the Company's United Kingdom legal counsel and has been deferred and included in accounts payable and accrued liabilities.

The primary segment reporting format has been determined to be the geographical segments according to the location of the asset. The Company has one class of business, being the exploration for, and development of, oil and gas reserves. There are two geographical reporting segments.

	United Kingdom	United States	Consolidated
E&E assets as at September 30, 2011	$ 18,785,721	$ 1,412,116	$ 20,197,837
E&E assets as at December 31, 2010	$ -	$ 1,472,231	$ 1,472,231
E&E assets as at January 1, 2010	$ -	$ 1,451,849	$ 1,451,849
E&E additions for the three months ended September 30, 2011	$ 11,799,246	$ -	$ 11,799,246
E&E additions for the three months ended September 30, 2010	$ 11,569	$ -	$ 11,569
E&E additions for the nine months ended September 30, 2011	$ 18,714,086	$ 11,520	$ 18,725,606
E&E additions for the nine months ended September 30, 2010	$ -	$ 20,382	$ 20,382

5. Property and Equipment

Balance, January 1, 2010	$ -
Additions	-
Balance, December 31, 2010	-
Additions	24,498
Depreciation	(5,994)
Balance September 30, 2011	$ 18,504

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

6. 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 net of issue costs*(iv)*	**116,485,090**		**65,060,428**	-		-
Issued on Northern amalgamation (Note 1)	**1,800,411**		**1,080,246**	-		-
Share issue costs	**-**		**-**	-		(235,608)
Balance end of period	**140,860,566**	**$**	**69,891,803**	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**	-		-
Share issue costs	**-**		**(4,830,626)**	-		-
Converted into common shares *(iv)*	**(116,485,090)**		**(65,060,428)**	-		-
	-		**-**	-		-
		$	**69,920,898**		$	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 for services rendered.*

(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, for future rate – Nil.*

(iv) *On March 10, 2011, the Company entered into a Subscription Receipt Agreement (the "Agreement") to issue 116,485,090 subscription receipts for $69,891,054 less $4,830,626 of share issue costs, which were converted into common shares in conjunction with the Company completing its initial public offering. Under the terms of the Agreement, each subscription receipt entitled the holder to 1 common share and 0.2 liquidity warrants (assuming certain conditions are not met) where each liquidity warrant entitles the holder to receive 1 common share if the Company does not complete a going public transaction by June 30, 2011. Pursuant to the Agreement, $23,000,000 (net of share issue costs) was released and 38,333,333 subscription receipts were automatically converted into common shares upon closing of the acquisition of certain exploration rights in the North Sea (Note 4 - the non-producing Orlando lease) on March 10, 2011 with the remainder being released on May 31, 2011 and 78,151,757 subscription receipts being converted into common shares with the successful closing of the Trent and Tyne transaction (Note 4). The liquidity rights expired as a result of the closing of the Northern transaction (Note1).*

(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.*

6. Share Capital - continued

(c) Stock options

The Company has a stock option plan, approved by its Board of Directors on May 27, 2011, 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. The options are non-transferable if not exercised. The minimum exercise price is based on the trading price of the Company's common shares prior to the day of the grant, less any applicable discount by the TSX Venture Exchange, which may be different from the closing price of such shares on the day of grant for options granted to date. The options under the plan vest as follows: ¼ immediately and ¼ vesting on the first, second and third anniversary dates. A summary of the status of the Company's stock option plan as at September 30, 2011 and December 31, 2010 and changes during the respective periods ended on those dates is presented below.

	September 30, 2011		December 31, 2010	
Stock Options	**Number of options**	**Weighted average Exercise Price**	Number of Options	Weighted average exercise price
Beginning of period	**-**	**$ -**	-	$ -
Granted	**9,550,000**	**$ 0.60**	-	$ -
Exercised	**-**	**$ -**	-	$ -
Forfeited	**-**	**$ -**	-	$ -
End of period	**9,550,000**	**$ 0.60**	-	$ -
Exercisable, end of period	**2,387,500**	**$ 0.60**	-	$ -

Date of Grant	**Number Outstanding**	**Exercise Price**	**Weighted Average Remaining Contractual Life**	**Date of Expiry**	**Number Exercisable September 30, 2011**
May 31, 2011	9,550,000	$0.60	3.73 years	May 31, 2015	2,387,500

The fair value of the options granted during the period was $0.31/option and was determined using Black Scholes model and the following assumptions: dividend yield – Nil, expected volatility 75%, risk free rate – 3.5%, expected life – four years and estimated forfeiture rate – 5%. The volatility was determined via a peer comparison due to the Company's limited trading history.

(d) Escrowed shares

Pursuant to an Escrow Agreement, all of the 14,000,785 common shares held by "principals" prior to the Northern transaction, were deposited in trust and held in escrow. 10% of these shares were released on May 27, 2011 upon completion of the Northern transaction and 15% will be released on each six month anniversary of that date. The Company has 12,600,707 common shares remaining in escrow on September 30, 2011.

7. Related Party Transactions

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

(a) During the three and nine month periods ended September 30, 2011, the Company was charged $14,725 (2010 - $19,003) and $454,289 (2010 - $19,209), respectively 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 $149,995 is included in accounts payable and accrued liabilities as at September 30, 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 quarter ended June 30, 2011.

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.

8. Commitments and Contingencies

Based on management's best estimate, the Company has the following contractual obligations:

	As at September 30, 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. Segment					
Exploration leases	**88,869**	11,109	22,217	22,217	33,326
UK Segment					
Drilling, completion and facility construction	**43,500,675**	43,500,675	-	-	-
Seismic	**24,108**	24,108	-	-	-
Total UK Segment	**$ 43,524,783**	$ 43,524,783	$ -	$ -	$ -
Contractual Obligations	**$ 43,613,652**	$ 43,535,892	$ 22,217	$ 22,217	$ 33,326

9. 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.

(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.

9. Financial Instruments - continued

(b) 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, accounts receivable including cash calls. Cash is placed with major financial institutions. Cash calls are generated from conducting joint capital operations with joint venture partners and at September 30, 2011 are due to activities relating to the Company's Orlando offshore (United Kingdom) licenses. The maximum exposure to credit risk is approximate to the carrying value of such financial instruments.

(c) 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 for the three and nine month periods ended September 30, 2011 by approximately $118,486 and $355,457, respectively (2010 - $3,804 and $11,412).

(d) 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 Company 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 September 30, 2011, December 31, 2010, or thereafter.

Assuming all other variables remain constant, a 1% increase or decrease in the British Pound / Canadian dollar foreign exchange rates on the foreign cash and restricted cash balances at September 30, 2011 would have increased or decreased the income of the Company for the three and nine months periods ended September 30, 2011 by approximately $360,722 and $360,712, respectively (2010 - $Nil and $Nil).

In addition at September 30, 2011, the Company held approximately $1,682,535 (£1,036,363) of accounts payable in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates as at September 30, 2011 would increased or decreased the income of the Company for the three and nine months periods ended September 30, 2011 by approximately $16,374 and $16,375 respectively (2010 - $Nil and $Nil).

(e) Fair Value of Financial Instrument

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 instruments.

- 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. 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.

9. Financial Instruments - continued

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

All financial assets are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There have been no changes to the aforementioned classifications during the period ended September 30, 2011.

(f) 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.

10. 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 Company's capital includes the following:

	September 30, 2011	December 31, 2010
Shareholders' equity	**$ 67,251,227**	$ 2,734,896

11. Transition to IFRS

Iona's accounting policies under IFRS differ from those followed under previous GAAP as described in note 3 of the interim financial statements for the three months ended March 31, 2011. These accounting policies have been applied on the transition date, January 1, 2010 and as of December 31, 2010, the comparative information for the three and nine months ended September 30, 2010 and the comparative information for the year ended December 31, 2010.

11. Transition to IFRS - continued

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 are as described in Note 12 of the interim financial statements for the three months ended March 31, 2011.

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		1,635,743	-			1,635,743
Deficit		(259,712)	-			(259,712)
		1,376,031	-			1,376,031
	$	1,568,395	-		$	1,568,395

11. Transition to IFRS - continued

Statement of Financial Position (Reconciliation of Equity) as at September 30, 2010:

As at September 30, 2010		Previous Canadian GAAP	Effect of Transition to IFRS	Note		IFRS
Assets						
Current						
Cash	$	1,521,617	-		$	1,521,617
Accounts receivable		19,800	-			19,800
Prepaid expenses and other		-	-			-
		1,541,417	-			1,541,417
Restricted cash		52,007	-			52,007
Exploration and evaluation assets		-	1,472,231	(a)		1,472,231
Property and equipment		1,702,263	(1,702,263)	(a)		-
	$	3,295,687	(230,032)		$	3,065,655
Liabilities						
Current						
Accounts payable and accrued liabilities		102,354	-			102,354
Shareholders' Equity						
Share capital		3,563,053	-			3,563,053
Deficit		(369,720)	(230,032)	(a)		(599,752)
		3,193,333	(230,032)			2,963,301
	$	3,295,687	-		$	3,065,655

11. 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		-	1,472,231	(a)		1,472,231
Property and equipment		1,895,783	(1,895,783)	(a)		-
	$	3,401,586	(423,552)		$	2,978,034
Liabilities						
Current						
Accounts payable and accrued liabilities		243,138	-			243,138
Shareholders' Equity						
Share capital		3,780,224				3,780,224
Deficit		(621,776)	(423,552)	(a)		(1,045,328)
		3,158,448	(423,552)			2,734,896
	$	3,401,586	-		$	2,978,034

(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, $1,472,231 at September 30, 2010 and $1,472,232 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. In the nine month period ended September 30, 2010 and the year ended December 31, 2010, $230,081 and $423,552, respectively, was expensed as it related to pre-license costs.

12. Subsequent Events

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

On November 9, 2011, the Company signed a Sale and Purchase Agreement with Fairfield Cedrus Ltd. ("Fairfield"), for a 100 per-cent in U.K. block 3/8d containing the Staffa oil field, the transaction is subject to regulatory approvals.

Under the terms of the agreement, the Company shall reimburse Fairfield for predevelopment expenditures related to the Staffa oil field of approximately $8.6-million. In addition, upon receiving regulatory approvals, the Company shall make a payment of US$5 million to Fairfield and pay a net royalty of US$2.50 per barrel on production from the Staffa oil field.