Iona Energy Inc.
Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements and accompanying notes to the consolidated financial statements are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with a transition date of January 1, 2010, using management's best estimates and judgments, where appropriate.

Preparation of consolidated financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these consolidated financial statements. The Audit Committee meets periodically with external auditors and management to review the financial results and discharge their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the consolidated financial statements and related management discussion and analysis of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed Deloitte & Touche LLP as external auditors of the Company and, in that capacity; they have examined the consolidated financial statements and the accompanying notes to the consolidated financial statements for the years ended December 31, 2011 and 2010 and the opening IFRS transition statement of financial position as at January 1, 2010. The Independent Auditor's Report to the shareholders follows.

"Neill Carson"
Neill Carson
President and CEO
April 27, 2012

"Brad Gunn"
Brad Gunn
CFO

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Iona Energy Inc.:

We have audited the accompanying consolidated financial statements of Iona Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Iona Energy Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Chartered Accountants

April 27, 2012
Calgary, Canada

Iona Energy Inc.
Consolidated Statements of Financial Position

$Cdn	Notes		December 31, 2011		December 31, 2010		January 1, 2010 Note (16)
ASSETS							
Current Assets							
Cash		$	**41,608,313**	$	1,155,386	$	64,539
Accounts receivable			**387,503**		280,008		-
Prepaid expenses			**208,603**		18,402		-
Restricted cash	5		**1,293,492**		-		-
Total Current Assets			**43,497,911**		1,453,796		64,539
Restricted cash	5		**52,007**		52,007		52,007
Deferred Costs	6		**315,439**		-		-
Exploration and evaluation assets	6		**28,234,558**		1,472,232		1,451,849
Property and equipment	7		**19,890**		-		-
Total Non-Current Assets			**28,621,894**		1,524,239		1,503,856
Total Assets		$	**72,119,805**	$	2,978,035	$	1,568,395
LIABILITITES AND SHAREHOLDERS'S EQUITY							
Current Liabilities							
Accounts payable and accrued liabilities		$	**7,046,905**	$	243,138	$	192,364
Total Current Liabilities			**7,046,905**		243,138		192,364
Non-Current Liabilities							
Decommissioning Liabilities	8		**170,145**		-		-
Total Non-Current Liabilities			**170,145**		-		-
Total Liabilities			**7,217,050**		243,138		192,364
Shareholders' Equity							
Share capital	9		**69,920,898**		3,780,224		1,635,743
Contributed surplus			**1,678,882**		-		-
Accumulated other comprehensive income			**(576,120)**		-		-
Deficit			**(6,120,905)**		(1,045,327)		(259,712)
Total Shareholders' Equity			**64,902,755**		2,734,897		1,376,031
Total Liabilities and Shareholders' Equity		$	**72,119,805**	$	2,978,035	$	1,568,395

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

Approved by:

Rod Maxwell
Director

Approved by:

Neill A. Carson
Director

Iona Energy Inc.
Consolidated Statements of Operations and Comprehensive Loss

$Cdn	Notes		Year Ended December 31 **2011**		Year Ended December 31 2010 (note 16)
Expenses					
General and administrative		$	**4,800,244**	$	350,066
Exploration and evaluation costs	**6**		**545,213**		423,551
Foreign exchange (gain)/loss			**(241,383)**		13,527
			5,104,074		787,144
Other item					
Finance income			**(28,496)**		(1,529)
Net loss for the year			**5,075,578**		785,615
Unrealized foreign exchange loss on net investments			**576,120**		-
Comprehensive loss for the year		$	**5,651,698**	$	785,615

Net loss per share - basic and diluted	$	**0.043**	$	0.052
Weighted average shares outstanding - basic and diluted (1)		**117,795,863**		15,156,345

(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 consolidated financial statements.

Iona Energy Inc.
Consolidated Statements of Changes in Shareholders' Equity

$Cdn	Notes		Share Capital		Contributed Surplus		Accumulated other Comprehensive Income		Deficit		Total Equity
Balance December 31, 2010		$	3,780,224	$	-	$	-	$	(1,045,327)	$	2,734,897
Net loss for the year			-		-		-		(5,075,578)		(5,075,578)
Share based payments			-		1,678,882		-		-		1,678,882
Foreign currency translation			-		-		(576,120)		-		(576,120)
Issue of shares (net of issue costs)	9		65,060,428		-		-		-		65,060,428
Issued on the acquisition of Northern Lights Acquisition Corp.	1		1,080,246		-		-		-		1,080,246
Balance December 31, 2011		$	69,920,898	$	1,678,882	$	(576,120)	$	(6,120,905)	$	64,902,755

$Cdn	Notes		Share Capital		Contributed Surplus		Accumulated other Comprehensive Income		Deficit		Total Equity
Balance January 1, 2010	16	$	1,635,743	$	-	$	-	$	(259,712)	$	1,376,031
Net loss for the year			-		-		-		(785,615)		(785,615)
Share issued via debt settlement	9		352,186		-		-		-		352,186
Issue of shares (net of issue costs)			1,792,295		-		-		-		1,792,295
Balance December 31, 2010		$	3,780,224	$	-	$	-	$	(1,045,327)	$	2,734,897

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

$Cdn	Notes		Year Ended December 31 2011		Year Ended December 31 2010
					(Note 16)
Cash flows from/(used in) operating activities					
Net loss for the year		**$**	**(5,075,578)**	$	(785,615)
Items not involving cash:					
Depreciation			**8,479**		-
Excess of consideration over net assets acquired on capital transaction	**1**		**525,341**		-
Costs settled through share issue			**-**		352,186
Share based payments			**1,678,882**		-
			(2,862,876)		(433,429)
Changes in non-cash working capital balances:					
Accounts receivable			**(317,494)**		-
Prepaid expenses			**(190,200)**		(18,402)
Accounts payable and accrued liabilities			**1,760,646**		87,821
Cash flow used in operating activities			**(1,609,924)**		(364,010)
Cash flows from/(used in) financing activities					
Issue of common shares, net of issue costs			**65,228,846**		1,512,287
Cash acquired on capital transaction	**1**		**554,905**		-
Cash flow from financing activities			**65,783,751**		1,512,287
Cash flows from/(used in) investing activities					
Expenditures on property and equipment			**(28,369)**		-
Expenditures on exploration and evaluation			**(22,131,067)**		(57,430)
Restricted cash			**(1,293,492)**		-
Cash flow used in investing activities			**(23,452,928)**		(57,430)
Effect of exchange rate changes on cash			**(267,972)**		-
Increase in cash			**40,452,927**		1,090,847
Cash, beginning of year			**1,155,386**		64,539
Cash, end of year		**$**	**41,608,313**	$	1,155,386
Supplemental information					
Interest paid		**$**	**-**	$	-
Taxes paid		**$**	**-**	$	-

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

As at December 31, 2011, December 31, 2010 and January 1, 2010, and years ended December 31, 2011 and 2010, all tabular amounts are expressed in Canadian dollars, except per share amounts or as otherwise stated.

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. 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.

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 held 1,800,412 shares of the amalgamated company and Iona shareholders held 139,060,155 shares of the amalgamated company. The proposed amalgamation agreement was subject to the TSX Venture Exchange and shareholder approval 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 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 General and Administrative Expenses	$ 525,341

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 Company (US) Limited	Delaware, USA	100%
Iona Energy Company (UK) Limited	United Kingdom	100%

2. Basis of Presentation

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Effective January 1, 2011 annual financial statements related to fiscal years beginning on or after January 1, 2011, IFRS has replaced Canadian generally accepted accounting principles (“previous GAAP”) for all publically accountable profit-orientated enterprises. Accordingly, IFRS 1 ‘First-Time Adoption of IFRS’ has been applied effective January 1, 2010 using IFRS in place of previous GAAP as at December 31, 2011. The effect of transition from previous GAAP to IFRS is quantified in note 16.

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 have permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 16.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 27, 2012.

Basis of measurement
The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due, accordingly, these consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value.

Functional and presentation currency
These 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 Company (US) Limited and British Pound Sterling (“GBP”) for Iona Energy Company (UK) Limited.

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 consolidated financial statements and the reported amounts of revenues and expenses during the year. 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 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, 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 record its share of net production revenues during the reporting year.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be different from those determined by the Corporation’s joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

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.

Oil and natural gas assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated recoverable reserves used in the determination of an area's technical feasibility and commercial viability. As such there is judgment in determining the timing of these transfers.

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 the 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. 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 acquisition 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 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 when a business is acquired. 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 operations and comprehensive loss.

(ii) Jointly controlled operations and jointly controlled assets:

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

3. Summary of Significant Accounting Policies - continued

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

Financial instruments:

(i) Financial instruments:
Financial instruments comprise of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. These financial instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

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.

Other:
Other financial instruments, such as cash, restricted cash, cash calls, accounts receivable, and accounts payable and accrued liabilities are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:
The Company may in the future enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices or foreign exchange. These instruments will not be used for trading or speculative purposes. Financial derivative contracts, not designated as effective hedges 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 incurred.

The Company does not currently have any embedded derivatives. If the Company does have embedded derivatives in the future they will be 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.

(iv) Cash and cash equivalents include cash on hand and deposits held with banks with maturities of less than 90 days.

Property and equipment and exploration and evaluation assets:

Exploration and evaluation expenditures (E&E):
Exploration and evaluation (pre-license) costs are recognized in the consolidated statement of operations and comprehensive loss as incurred. E&E 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

3. Summary of Significant Accounting Policies - continued

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 development and production assets once the Company has obtained Field Development approval (“FDP”) and after completing an impairment assessment. The cost of undeveloped land that expires or any impairment of capitalized E&E expenditures recognized during a period is charged to the consolidated statement of operations and comprehensive loss.

E&E 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”).

Property and Equipment:
Items of property and equipment currently consists of office equipment but in the future will also include oil and gas development and production assets. Property & equipment assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets will include; transfers from E&E 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.

When significant parts of an item of property, and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

Subsequent costs of development and production assets:
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of development and production assets 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 and equipment are recognized in operating expenses as incurred.

Depletion and depreciation:
The net carrying value of development and production assets will be depleted using the unit of production method by reference to the ratio of production in the period to the related estimate of recoverable 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.

Recoverable reserves will be 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.

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.

3. Summary of Significant Accounting Policies - continued

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 operations and comprehensive loss.

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 operations and comprehensive loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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 annually. E&E assets are assessed for impairment when they are transferred to property 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.

3. Summary of Significant Accounting Policies - continued

E&E assets are allocated to related operating units 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 and equipment).

An impairment loss is recognized if the carrying amount exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of operations and comprehensive loss. Impairment losses recognized in ’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 9(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 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 a category within equity referred to as 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

3. Summary of Significant Accounting Policies - continued

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.

Income tax:
Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations and comprehensive loss 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.

Future Changes in Accounting Policies:
As part of our transition to IFRS, we will adopt all IFRS accounting standards in effect on December 31, 2011.

The following standards and interpretations have not been adopted as they apply to future periods.

3. Summary of Significant Accounting Policies - continued

They may result in future changes to our existing accounting policies and other note disclosures.

IFRS 9 *Financial Instruments* – in November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 to address classification and measurement of financial assets. In October 2010, the IASB revised the standard to include financial liabilities. The standard is required to be adopted for periods beginning January 1, 2015. We are evaluating the impact that this standard may have on our results of operations and financial position.

IFRS 10 *Consolidated Financial Statements* – in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our results of operations and financial position.

IFRS 11 *Joint Arrangements* – in May 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our results of operations and financial position.

IFRS 12 *Disclosure of Interests in Other Entities* – in May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our results of operations and financial position.

IFRS 13 *Fair Value Measurement* – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. We are evaluating the impact that this standard may have on our results of operations and financial position.

IAS 1 *Presentation of Items of Other Comprehensive Income* – in June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are re-classed to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. We are evaluating the impact that this standard may have on our results of operations and financial position.

IFRS 7 *Financial Instruments: Disclosures* - in December 2011, the IASB issued final amendments to IFRS 7 relating to the requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

IAS 12, *Income Taxes*, was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012.

IAS 32 *Financial Instruments: Presentation* - in December 2011, the IASB issued amendments to IAS 32 to address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for periods beginning January 1, 2014.

4. Segmented Information

The Company's reportable segments and geographical segments are the United Kingdom (North Sea) and the United States. The corporate reportable segment includes the Company's corporate and financing activities.

The accounting policies used for the reportable segments are the same as the Company's accounting policies. For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officers monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments. The following tables show information regarding the Company's segments.

	Year ended December 31, 2011			
	United Kingdom	United States	Corporate	**Total**
Depletion and depreciation	$ 8,479	$ -	$ -	**$ 8,479**
(Expenses)/ income before finance income	(1,390,817)	32,129	(3,745,386)	**(5,104,074)**
Finance income	3,495	-	25,001	**28,496**
Net (loss)/ income	(1,387,322)	32,129	(3,720,385)	**(5,075,578)**
Exploration and evaluation costs expensed	545,213	-	-	**545,213**
Additions to non-current assets	27,611,673	-	-	**27,611,673**
Total assets	59,869,117	894,269	11,356,419	**72,119,805**
Total liabilities	$ 6,586,641	$ -	$ 630,409	**$ 7,217,050**

	Year ended December 31, 2010			
	United Kingdom	United States	Corporate	Total
Depletion and depreciation	$ -	$ -	$ -	$ -
Expenses before finance expense	(423,551)	-	(363,593)	(787,144)
Finance income	-	-	1,529	1,529
Net loss	(423,551)	-	(362,064)	(785,615)
Exploration and evaluation costs expensed	423,551	-	-	423,551
Additions to non-current assets	8,579	11,804	-	20,383
Total assets	546,149	961,386	1,470,500	2,978,035
Total liabilities	$ -	$ -	$ 243,138	$ 243,138

5. Restricted Cash

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

As of December 31, 2011, the Company had $1,293,492 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, which is expected to occur in June/July 2012 (note 6).

6. Exploration and Evaluation Assets

Balance, January 1, 2010	$	1,451,849
Additions		20,383
Balance, December 31, 2010	$	1,472,232
Drilling in Progress		15,793,179
E&E Additions		5,388,290
Acquisitions		6,086,396
Unsuccessful exploration and evaluation		(197,058)
Effect of changes in exchange rate		(308,481)
Balance December 31, 2011	$	28,234,558

The Company's exploration and evaluation assets consist of costs pertaining to Alaska and the United Kingdom.

During the year, the Company expensed $348,155 (2010 - $423,551) of exploration and evaluation assets as they related to exploration and evaluation (pre-license) costs. Also, following completion of geotechnical evaluation activity, the decision was made post year end to relinquish the Solway Firth license and therefore the carrying value of the license of $197,058 was expensed (2010- $Nil)

On March 14, 2011, the Company acquired a 35% working interest in the non-producing Orlando lease located in the United Kingdom for US$3.0 million. On November 2, 2011, drilling commenced on well 3/3b-13 which is located on the Company's Orlando property and the costs at the year end are noted as 'Drilling in progress' in the table above.

On April 15th, 2011, the Company entered into an option agreement with Venture North Sea Oil Limited ("Venture") for the right to purchase a 58.73% working interest in the West Wick oil discovery contained in UK Block 13/21a and paid a holding deposit of US$3.15 million to Venture.

On May 27, 2011, the Company entered into an agreement with respect to the Trent & Tyne field whereby they agreed to cost-capped work commitment of $32,851,520 (£21,200,000) resulting in 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 estimated at $6.46 million upon completion of the work commitment. Upon closing the transaction the effective date will be 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 which is expected in June/July 2012. As of December 31, 2011, net production revenue and related value added tax of $1,293,492 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 ($990,669) and deferred costs ($302,823). Also, $618,262 of costs had been incurred in relation to the drilling of the work commitment noted above at the year end and have been included in deferred costs. The Company has $315,439 of net deferred costs at year end.

7. Property and Equipment

Cost or deemed cost:		Office Equipment/ Computers/ Other		Total
Balance, January 1, 2010	$	-	$	-
Additions		-		-
Balance, December 31, 2010	$	-	$	-
Additions		28,369		28,369
Balance, December 31, 2011	$	28,369	$	28,369

Depreciation and Impairment losses:		Office Equipment/ Computers/ Other		Total
Balance, January 1, 2010	$	-	$	-
Depreciation for the period		-		-
Balance, December 31, 2010	$	-	$	-
Depreciation for the period		8,479		8,479
Balance, December 31, 2011	$	8,479	$	8,479

Net book value		Office Equipment/ Computers/ Other		Total
Balance, January 1, 2010	$	-	$	-
Balance, December 31, 2010	$	-	$	-
Balance, December 31, 2011	$	19,890	$	19,890

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

8. Decommissioning Liabilities

Balance, January 1, 2010	$	-
Changes to provision		-
Balance, December 31, 2010	$	-
Additions		170,145
Balance December 31, 2011	$	170,145

The total future decommissioning liability was calculated by management based on its net ownership interest in the Orlando field and the estimated costs to be incurred in future periods to reclaim and abandon the well. The decommissioning liability was measured at the end of the year using a pre-tax, risk-free discount rate of 4.02% percent and an inflation rate of 2.00% percent over the estimated life of the asset to calculate the present value of the decommissioning liability. The costs are expected to be incurred in 10 years.

9. 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	$	1,635,743
Issued for cash *(i)*	**-**		**-**	9,085,491		1,998,808
Issued to settle debts and accounts payable *(ii)*	**-**		**-**	4,344,469		352,186
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, forfeiture 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 will entitle 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 Corporation 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 6 - 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 6). The liquidity warrants 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 consolidated financial statements and related discussions reflect the rollback on a retroactive basis.

(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

9. Share Capital - continued

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 exercise price can be no less than the market price of 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. Pursuant to the plan, the vesting provisions of the stock options are determined by the Board of Directors at the date of grant. All of the options granted to date 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 December 31, 2011 and December 31, 2010 and changes during the respective periods ended on those dates is presented below:

	December 31, 2011		December 31, 2010	
Stock Options	**Number of Options**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning of year	**-**	**$ -**	-	$ -
Granted	**9,650,000**	**0.60**	-	-
Exercised	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
End of year	**9,650,000**	**$ 0.60**	-	$ -
Exercisable, end of year	**2,412,500**	**$ 0.60**	-	$ -

Date of Grant	**Number Outstanding**	**Exercise Price**	**Weighted Average Remaining Contractual Life**	**Date of Expiry**	**Number Exercisable Dec 31, 2011**
May 31, 2011	9,550,000	$0.60	3.42 years	May 31, 2015	2,387,500
November 25, 2011	100,000	$0.60	3.92 years	November 25, 2015	25,000

The fair value of the options was estimated using the Black Scholes option pricing model with the following assumptions:

	Year ended December 31, 2011	**Year ended December 31, 2010**
Fair value at grant date:		
Options granted on May 31, 2011	$ 0.35	-
Options granted on November 25, 2011	$ 0.17	-
Exercise price	$ 0.60	-
Dividend yield	Nil	-
Expected volatility	75%	-
Risk-free rate	3.5%	-
Expected life	4 years	-

An estimated forfeiture rate of 5% (2010 – nil) is used when recording share based payments. 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 13,342,409 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, 15% will be released on each six-month anniversary of that date. On November 27, 2011 the Company released 2,100,118 shares from escrow. The Company has 10,006,807 common shares remaining in escrow on December 31, 2011.

10. Taxation

Reconciliation of effective tax rate for the years ended December 31:

	2011	2010
Loss before tax from continuing operations	$ (5,075,578)	$ (787,144)
Rate of corporation tax (parent)	26.5%	28.0%
	$ (1,345,028)	$ (220,400)
Non deductible stock based compensation	$ 329,827	$ -
Other permanent differences	22,548	2,366
Foreign tax rate difference	(489,768)	(93,181)
Unrecognised deferred tax asset	1,482,422	311,216
Tax Expense	**$ -**	**$ -**

Unrecognized Deferred Tax Assets

Deferred tax assets have not been recognized in respect of the following items:

Year ended December 31, 2011

	United Kingdom	United States	Canada	Total
Pre-trading expenditure	$ 2,323,014	$ -	$ -	$ 2,323,014
Other temporary differences	-	(234,746)	78,874	(155,871)
Tax losses	-	223,500	772,061	995,561
Total unrecognized deferred tax asset	**$ 2,323,014**	**$ (11,245)**	**$ 850,935**	**$ 3,162,704**

Year ended December 31, 2010

	United Kingdom	United States	Canada	Total
Pre-trading expenditure	$ 211,766	$ -	$ -	$ 211,766
Other temporary differences	-	(156,497)	43,819	(112,678)
Tax losses	-	156,497	153,122	309,619
Total unrecognized deferred tax asset	$ 211,766	$ -	$ 196,941	$ 408,707

As at January 1, 2010

	United Kingdom	United States	Canada	Total
Other temporary differences	$ -	$ (78,249)	$ -	$ (78,249)
Tax losses	-	78,249	64,580	142,829
Total unrecognized deferred tax asset	$ -	$ -	$ 64,580	$ 64,580

10. Taxation - continued

A deferred tax asset has not been recognized as it is not probable at the year end that the asset is recoverable. The asset is recoverable if there are future suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. It is likely that with further development of the assets in the United Kingdom that a deferred tax asset will be recognized. The probability of recoverability will be reviewed at the end of each reporting period.

The Company has incurred cumulative non-capital losses at December 31, 2011 of approximately $2,913,437 (December 31, 2010 - $546,864, January 1, 2010 – $230,643) for Canadian income tax purposes, which are available to reduce taxable income in future years. If not utilized, these losses will expire in the years ending December 31, 2026 to 2031. The unrecognized UK deferred tax asset relates to pre-trading expenditure which if capital in nature can be carried on indefinitely. Currently all pre-trading expenditure in the UK is considered capital in nature.

11. Related Party Transactions

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

(a) During the year ended December 31, 2011, the Company was charged $372,779 (2010 - $Nil), 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 $189,679 is included in accounts payable and accrued liabilities as at December 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.

(c) Compensation of key management personnel:

Key management personnel include all Directors, the Chief Executive Officer and the Chief Financial Officer. Compensation paid to and share-based compensation attributable to the key management personnel consists of the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term benefits	$ 561,476	$ 313,299
Share based payments (1)	$ 1,086,794	$ -
Termination benefits	$ -	$ -

(1) Represents amount of the non-cash share-based compensation expense estimated on grant date associated with share options (note 9). This amount may not be equal to the fair value ultimately received on exercise.

12. Commitments and Contingencies

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.

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

	As at December 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. Segment					
Exploration leases	**$ 234,982**	$ 13,399	$ 37,365	$ 58,127	$ 126,091
UK Segment					
Acquisitions (note 15)	**13,600,000**	13,600,000	-	-	-
Decommissioning obligation	**6,460,000**	-	-	-	6,460,000
Drilling, completion, facility construction	**37,082,000**	37,082,000	-	-	-
Seismic	**24,108**	24,108	-	-	-
Total UK Segment	**57,166,108**	50,706,108	-	-	6,460,000
Contractual Obligations	**$ 57,401,090**	$ 50,719,507	$ 37,365	$ 58,127	$ 6,586,091

13. 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.

(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 and accounts receivable. Cash and restricted cash is placed with major financial institutions. The maximum exposure to credit risk is approximate to the carrying value of such financial instruments. The Company does not have an allowance for doubtful accounts as at December 31, 2011, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the year ended December 31, 2011 or 2010.

13. Financial Instruments - continued

(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 year ended December 31, 2011 in relation to
the Canadian dollar by approximately $169,175 and $28,496 respectively (2010 – increase and decrease $230).

(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 December 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 December 31, 2011 would have impacted the comprehensive loss of the Company for the year ended December 31, 2011 by approximately $316,421 (2010 - $Nil).

In addition at December 31, 2011, the Company held approximately $6,321,847 (£4,008,272) of accounts payable and unearned revenue in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates as at December 31, 2011 would impact the comprehensive loss of the Company for the year ended December 31, 2011 by approximately $63,218 (2010 - $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.

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 year ended December 31, 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, 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 (see note 15).

14. 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. Subsequent to December 31, 2011 the Company entered into a $130 million credit facility (see note 15). At December 31, 2011 the Company was not subject to any externally imposed covenants.

The Company's capital includes the following:

	December 31, 2011	December 31, 2010
Shareholder's equity	**$ 64,902,755**	$ 2,734,897

15. Subsequent Events

On January 19, 2012, the Company completed the Kells Sale and Purchase Agreement and acquired full ownership and operatorship from Fairfield Cedrus Limited ("Fairfield") of a 100% interest in Block 3/8d containing the Kells Oil Field. The transaction was also approved by the U.K.'s Department of Energy and Climate Change ("DECC"). Under the terms of the Sale and Purchase Agreement, Iona reimbursed Fairfield on closing for $8.6 million in pre-development expenditures related to the Kells field. In addition, upon the approval by DECC of a field development plan in respect of Kells, Iona will be obligated to make a cash payment of $5 million to Fairfield and pay a net royalty of $2.50 per barrel of production commencing upon first oil from Kells.

On February 3, 2012, the Company signed a binding Sale and Purchase agreement for the acquisition from Centrica Venture Production Company ("VPC") of a 58.73 % interest in Block 13/21a containing the West Wick Oil Field. The completion of this transaction and assignment is expected to be completed by May 31, 2012 and is currently subject to a pre-emptive right, partner and U.K. DECC approval. Under the terms of the Sale and Purchase Agreement, Iona paid to Centrica a holding deposit of USD $3.15 million, and on completion will pay to VPC a sum of USD $5 million. Upon completion of the acquisition of Centrica's interest in the West Wick Field, the working interests on Block 13/21a will be 58.73% Iona and 41.27% Idemitsu Petroleum UK Ltd.

On April 5, 2012, Iona Energy announced has it has now obtained final credit approval from a syndicate of lenders for the purposes of providing its previously announced USD$130 million secured reserve based credit facility (the "Credit Facility"). The syndicate is comprised of Lloyds Banking Group, Royal Bank of Scotland PLC, Credit Suisse AG and a U.S. financial institution. The Credit Facility is subject to ongoing and customary due diligence as well as completion of definitive agreements. In accordance with industry practice, the Credit Facility is subject to ongoing and customary due diligence as well as completion of definitive credit agreements. Drawdowns on the Credit Facility will be subject to such conditions precedent and covenants as are typical of reserve based credit facilities. The Credit Facility is intended to be for a term of 5 years. All amounts advanced under the Credit Facility will be related to Iona's interests and development work programs within the Trent & Tyne Gas Fields, the Kells Oil Field, and the Orlando Oil field.

15. Subsequent Events - continued

On April 11, 2012, the Company announced the closing of a $92 million equity financing. A total of 184 million common shares were sold, which includes shares issued on the exercise in full of a 15-per-cent overallotment option granted to the agents retained by the Company for purposes of the offering. The sale price of each share sold in connection with the offering was $0.50. The Company intends to use the net proceeds of the offering (i) to finance the Company's development of its Kells oil assets; (ii) to acquire the West Wick oil assets; (iii) for development engineering of the Orlando oil field; (iv) for general and administrative expenses; and (v) for working capital and general corporate purposes.

16. 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 on the transition date, January 1, 2010 and as of December 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 is 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 statements under Canadian GAAP and IFRS to illustrate the impact on adoption. Due to the limited activity and only one IFRS transition adjustment as discussed in footnote (a), the statement of cash flows for the year ended December 31, 2010 was impacted by increasing cash flows used in operating activities by $423,551 and decreasing cash flows used in investing activities by a corresponding amount.

16. 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
		64,539				64,539
Non-Current						
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)		-
		1,503,856				1,503,856
Total Assets		i. 1,568,395				ii. 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

16. 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
Non-Current						
Restricted cash		52,007				52,007
Exploration and evaluation assets		-	1,472,232	(a)		1,472,232
Property and equipment		1,895,783	(1,895,783)	(a)		-
		1,947,790				1,524,239
Total Assets		3,401,586				2,978,035
Liabilities						
Current						
Accounts payable and accrued liabilities		243,138				243,138
Shareholders' Equity						
Share capital		3,780,224				3,780,224
Deficit		(621,776)	(423,551)	(a)		(1,045,327)
		3,158,448				2,734,897
	$	3,401,586	-		$	2,978,035

(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 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. During the year ended December 31, 2010, $423,551 of exploration and evaluation assets was expensed as it related to exploration and evaluation (pre-license) costs.

16. Transition to IFRS - continued

Reconciliation of the Net Loss and Comprehensive Loss of the Company from the amounts previously reported under Canadian GAAP to IFRS for the twelve months ended December 31, 2010:

As at December 31, 2010		Previous Canadian GAAP	Effect of Transition to IFRS	Note		IFRS
Expenses						
General and administrative	$	350,066			$	350,066
Exploration and evaluation costs		-	423,551	(a)		423,551
Foreign exchange (gain)/loss		13,527				13,527
		363,593	423,551	(a)		787,144
Other item						
Finance income		(1,529)				(1,529)
Net loss and comprehensive loss for the year	$	362,064			$	785,615
Loss per share - Basic and Diluted	$	0.024			$	0.052

CORPORATE INFORMATION

DIRECTORS

Neill A. Carson (3)(5)
Aberdeen, Scotland

Brad Gunn (4)
Calgary, Alberta

Donald Copeland (1)(2)(3)
Calgary, Alberta

Roger Laing (2)(4)
Calgary, Alberta

Rod Maxwell (1)(3)
Calgary, Alberta

Jay Zammit (1)(2)(4)
Calgary, Alberta

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Reserve Committee
(4) Member of the Governance Committee
(5) Member of the Health, Safety and Environment Committee

OFFICERS

Neill A. Carson
President and Chief Executive Officer

Brad Gunn
Chief Financial Officer

Alan Curran
Chief Operating Officer

Peter F. Campbell
Manager, Commercial Infrastructure

Colin Tannock
Chief of Subsurface

Dave Sherrard
VP Development

Robin Baxter
VP Business Development

Graham A. Heath
VP Corporate Development

OFFICES

Calgary, Canada
Banker's Hall
Suite 1000, 888-3rd St SW
Calgary, AB, T2P 5C5
TEL: +403.444.5416

Aberdeen, United Kingdom
Lower Ground Suite
3 Queen's Gate
Aberdeen AB15 5YI
United Kingdom
TEL: +44.1224.228400

WEBSITE: www.ionaenergy.com
EMAIL: info@ionaenergy.com

REGISTER AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta, Canada

EXCHANGE LISTINGS

The TSX Venture Exchange
TSX-V: INA

SECURITIES FILINGS

www.sedar.com

Information requests and other Investor relations inquiries can be directed to:

info@ionaenergy.com or by telephone at +403.444.5416