## Iona Energy Inc.
## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of Iona Energy Inc. ("Iona" or "the Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the consolidated financial statements and accompanying notes of the Company as at and for the year ended December 31, 2011, the MD&A for the year ended December 31, 2010, and the audited consolidated financial statements as at and for the year ended December 31, 2010. The Annual Consolidated Financial Statements and comparative information have been prepared in accordance with IFRS 1, *first time adoption of IFRS*, and the Annual Information Form ("AIF") for the year ended December 31, 2001, both of which are available on SEDAR at www.sedar.com.

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Previously, Iona prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Notes 3 and 16 of its December 31, 2011 Consolidated Financial Statements. Further information on the IFRS impacts is provided in the Change in Accounting Policies Section of this MD&A.

This MD&A is dated April 27, 2012. All currency amounts are expressed in Canadian Dollars ("$") unless otherwise stated.

Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements." These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties and actual results could differ materially from those currently anticipated. These risks and uncertainties include, but are not limited to, changes in market conditions, law or government policy, operating conditions and costs, operating performance, demand for oil and gas and related products, price and exchange rate fluctuations, commercial negotiations or other technical and economic factors. Forward-looking statements are based on current expectations, estimates and projections of future production and capital spending as at the date of this MD&A and the Company assumes no obligation to update or revise forward-looking statements to reflect new events or circumstances, except as required by law.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed course of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

### Formation of Company and Equity Financing

On March 10, 2011, IECL completed a private placement financing of 116,485,090 subscription receipts at a price of $0.60 per subscription receipt for gross proceeds of $69,891,054. Wellington West Capital Markets Inc. (lead agent), Research Capital Corporation and National Bank Financial Inc. acted as agents in connection with the financing. The gross proceeds of the private placement were then placed into escrow, subject to release in two tranches, with $23,000,000 subject to escrow conditions related to the closing of Iona Energy's acquisition of the Orlando assets, and $46,891,054 subject to escrow conditions related to the closing of Iona's acquisition of the Trent & Tyne assets. On March 10, 2011, IECL completed the acquisition of the Orlando assets. In conjunction with IECL's acquisition of the Orlando assets, 38,333,333 subscription receipts were automatically converted into 38,333,333 IECL common shares and 7,666,667 liquidity rights pursuant to the terms of the subscription receipts and the proceeds of $23,000,000 were released from escrow. The proceeds of $46,891,054 for the unconverted 78,151,757 subscription receipts remained in escrow until May 31, 2011, and were released upon the completion of Iona's acquisition of the Trent & Tyne assets (as described in *Key Projects Update*).

On April 19, 2011, IECL and Northern entered into an amalgamation agreement dated April 19, 2011 (the "Amalgamation Agreement") pursuant to which IECL and Northern agreed to amalgamate under the provisions of the ABCA to form Iona. Pursuant to the Amalgamation Agreement, on May 27, 2011, Iona issued one (1) Common Share for each one (1) IECL Common Share held by an IECL shareholder and 0.342935528 common shares for each one (1) Northern Share held by a Northern shareholder. An aggregate of 60,908,398 common shares were issued to former IECL shareholders (in exchange for the 60,908,398 outstanding IECL common shares) and an aggregate of 1,800,412 common shares were issued to Northern shareholders (in exchange for the 5,250,000 outstanding Northern Shares), all at a deemed price of $0.60 per Common Share.

The amalgamation constituted the Qualifying Transaction of Northern pursuant to the CPC Policy of the TSX-V. Additionally, upon the Amalgamation, (i) 78,151,757 replacement subscription receipts in the capital of Iona were issued to holders of outstanding IECL subscription receipts, having substantially identical terms as the IECL subscription receipts, (ii) 300,000 agent warrants of Northern were replaced with 102,881 share purchase warrants of Iona with identical terms (which have since expired in accordance with their terms); (iii) 264,500 agent warrants of IECL were replaced with 264,500 agent warrants of Iona with identical terms; and (iv) 525,000 stock options of Northern were replaced with 180,041 stock options of Iona with an exercise price of $0.58 per Common Share and substantially identical terms.

On May 31, 2011, Iona completed the acquisition of the Trent & Tyne assets. In connection with the completion of the amalgamation on May 27, 2011 and the completion of certain conditions relating to the acquisition of the Trent & Tyne assets on May 31, 2011, gross proceeds of $46,891,054 were released from escrow to Iona, the 78,151,757 replacement subscription receipts in the capital of Iona were automatically converted into 78,151,757 common shares, and all of the liquidity rights were cancelled.

On June 8, 2011, Iona's common shares began to trade on the TSXV under the symbol "INA".

**Business of the Company**

Iona is an oil and natural gas acquisition, appraisal, and development corporation active through its 100% wholly owned United Kingdom subsidiary Iona Energy Company (UK) Ltd. in the United Kingdom's Continental Shelf ("UKCS").

Over the last year, the Company has continued its efforts to acquire strategically aligned assets for its UK portfolio. Iona seeks low-cost, proven undeveloped acquisition targets that are proximate to infrastructure willing and able to accept its production, and where sub-sea tiebacks can be utilized. Employing this strategy facilitates the Company's pursuit of profitable oil and gas production through the effective management of finding and development costs, initial capital expenditure, and lower long-term per barrel operating expenditure and tariffs.

***Key Projects Update***

*Orlando – A proven undeveloped oil discovery*

In December 2010, the Company signed a Sale and Purchase Agreement with Wintershall (E&P) Limited ("Wintershall") to acquire their entire 35% equity interest in UKCS License P1606, Block 3/3b (An oil discovery referred to as "Orlando" located in the North Viking Graben area of the UK North Sea) with the transaction closing on March 10, 2011. The consideration payable to Wintershall for the Orlando acquisition was USD$3,000,000 and the Company is required to fund the respective commitment well to the extent of 42.5% to earn a 35% equity interest. The Orlando drilling program is operated by MPX (with a 30% working interest) with Iona and Sorgenia as partners (each with a 35% working interest).

On November 2, 2011, MPX commenced drilling well 3/3b-13 (the "Well") on the Company's Orlando property with the Awilco WilHunter semi-submersible rig (the "Rig") owned by Awilco Drilling plc. As noted above, the Corporation is responsible for funding 42.5% of the cost for the Well, which is the first of the development wells planned for the Orlando property. The Rig was anticipated to be on location for approximately 45 days, however, drilling of the well had been curtailed by both severe weather and mechanical delays. On the 30th of March 2012, the Company was pleased to announce that the Orlando appraisal well 3/3b-13 had reached its total depth target within the planned trajectory for the development well. The top of the reservoir was encountered at approximately 13,286 ft Measured Depth (-11,428 ft True Vertical Depth Sub Sea) and logs show the expected Upper Tarbert reservoir is present and is fully oil bearing and more of the underlying Upper Ness reservoir sands appear to be oil bearing than in the original discovery well (Well 3/3-11). The oil bearing interval within the Upper Ness exceeds management's expectations.

The well has been drilled to a Measured Depth ("MD") of 14,300 feet, and Total Vertical Depth Sub Sea ("TVDSS") of -12,104 feet in Middle Jurassic (Brent reservoir group) sands and shales. Based on a preliminary evaluation of the logs, the Tarbert and Ness Reservoirs correlate strongly with those same units encountered in the original discovery well 3/3-11. Logging shows the Tarbert contains 76 ft of True Vertical Thickness ("TVT") gross sandstone (60 ft Net) and the Ness contains gross 166 ft of TVT gross sandstone (46 ft Net). An estimated oil column on the Orlando Field of approximately 270 ft above the 11,670 ft TVDSS oil water contact, inferred by the 3/3-11 well, has been confirmed by the 3/3b-13 well.

MPX Energy Limited (“MPX”), the Operator, has commenced a side-tracking operation of the well in order to acquire additional reservoir data and fluid samples. Orlando Joint Venture partners, MPX, which is 68% owned by Sorgenia International B. V., and Sorgenia, are jointly funding the operation in order to accelerate the Orlando Field Development Plan (“FDP”) submission and to maintain the development schedule. This operation will be at no additional cost, weather risk or risk of mechanical difficulties to Iona. On completion of this operation it is agreed that the well will suspended the for later completion upon approval of the Orlando FDP. Iona does not support the additional cost of side-tracking of the well. The Company is satisfied with the data acquired by the well and believes the data supports the envisaged FDP.

A development concept has been agreed for planning purposes targeting first oil from Orlando in 2013 and allowing long lead procurement. The contract for the procurement of Xmas trees for the development has been awarded to GE Oil & Gas. Production processing is planned for CNRL International’s Ninian platform, where a per-barrel tariff has been negotiated at GBP £4.00/bbl.

*Trent & Tyne gas production*

In November 2010, the Company signed a Letter of Intent with Perenco UK Limited (“Perenco”) regarding Iona’s acquisition of a 20% working interest in two producing UK Southern North Sea gas fields, the Trent Field (Block 43/24 - License P685) and the Tyne Field (Block 44/18 - License P609) (herein referred to as “Trent & Tyne”) with the transaction closing on May 31, 2011. Pursuant to the agreement, Iona committed to fund up to GBP£21,200,000 for the drilling of a production well on the Tyne Field. The planned work program is comprised of a re-entry into the existing T5 well and sidetrack to an up-dip location (the “T5 Sidetrack Well” or “T5-z Well”). The Company’s financial exposure will be cost-capped such that, in the event the T5-z Well exceeds the GBP£21,200,000, any additional costs related to the well will be borne 100% by Perenco. Additionally, with respect to an area known as Tyne North West, Iona will have the option to increase its working interest in Trent & Tyne by a further 17.5% (37.5% in total), by committing to fund the drilling of a second well with Perenco as Operator. Again, this drilling program is cost-capped to Iona at GBP£24,650,000, such that any cost overrun beyond this amount will be borne 100% by Perenco.

The Trent & Tyne agreement with Perenco is dated effective September 1, 2010, therefore Iona has received production revenue and paid its share of production related costs associated with approximately 3MMscfd of net gas production as a result of its 20% working interest. The Company anticipates drilling of the T5-z Well during July 2013. Upon completion on tie-in of the T5-z Well, Iona’s net Trent & Tyne production initially is expected to increase by approximately 4.3MMscfd (20% working interest to Iona), and furthering this to approximately 12MMscfd (37.5% working interest to Iona) with Iona’s commitment to drill the Tyne North West prospect. A successful completion of Tyne North West, which the Company hopes to drill and tie back by Q2 2013, has the potential to increase production by an incremental 11MMscfd (37.5% working interest to Iona).

*Kells (previously named “Staffa”) – Redevelopment of a proven field*

In November 2011, the Company signed a Sale and Purchase Agreement with Fairfield Cedrus Limited (“Fairfield”) for the 100% ownership and operatorship in U.K. block 3/8d containing the Kells oil field. On January 19, 2012, the Company completed the acquisition, obtaining full approval from DECC. Under the terms of the Sale and Purchase Agreement, Iona reimbursed Fairfield on closing for USD$8,600,000 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 USD$5,000,000 to Fairfield and pay a net royalty of USD$2.50 per barrel of production commencing upon first oil from Kells. Since the acquisition, the Company has been focusing on the future development of the Kells field and has had its Exploration Operatorship Application approved by DECC and has submitted a Field Development Plan and Environmental Statement to DECC for approval.

The Kells oil field is located in block 3/8d in the U.K. North Sea and lies approximately 14 kilometres southeast of the producing Ninian Central platform. The Kells field also lies due south of the Orlando oil discovery within block 3/3b in which a 35% working interest is held by Iona. The Kells field is a three-way fault closed structure approximately four km long by two km wide and has a 489-foot (true vertical thickness) oil column in the Upper Brent sandstone reservoirs. The Kells field previously produced at rates of between 5,800 and 10,000 barrels of oil per day (bopd) between the years 1992 and 1994 and ceased production when the Brent crude oil price was approximately $13 to $15 per barrel.

Since the year end, the Company has awarded contracts for the drilling of the Kells development well and also for the Kells field development covering project management, engineering, Xmas trees and procurement of other equipment.

*West Wick – Oil Discovery*

On April 15th, 2011, Iona Energy Company (UK) Limited entered into an option agreement with Venture North Sea Oil Limited ("Venture") for the right by Iona Energy Company (UK) Limited to purchase a 58.73016% working interest in an oil discovery contained in UK Block 13/21a. Iona exercised its option and on February 3, 2012, the Company signed a binding Sale and Purchase agreement. The transaction and assignment is expected to complete by May 31, 2012 and is currently subject to a pre-emptive right, partner and DECC approval. Under the terms of the Sale and Purchase Agreement, Iona paid to Centrica a holding deposit of USD$3,150,000 in April 2011 and on completion will pay Venture a sum of USD$5,000,000. 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.

The Company is currently reviewing its portfolio of assets, both in terms of managing its forward risks and as a means of realizing value to fund ongoing appraisal and development. The review may result in farm-outs, project financing or divestitures of certain assets.

***General and Administrative Expenditure***

| *($ thousands)* General and administrative | Three months ended December 31, **2011** | 2010 | Year ended December 31 **2011** | 2010 |
|---|---|---|---|---|
| Consulting fees / wages | **285** | 29 | **1,061** | 99 |
| Professional fees | **118** | 191 | **665** | 210 |
| Stock option expense | **325** | - | **1,679** | - |
| Bank charges | **1** | 1 | **5** | 2 |
| Office and other | **150** | 15 | **263** | 23 |
| Travel | **131** | 4 | **444** | 14 |
| NLAC acquisition charge | **-** | - | **525** | - |
| Other | **34** | - | **158** | 2 |
| Total | **1,044** | 240 | **4,800** | 350 |

General and administrative costs for the three months and year ended December 31, 2011 have increased from the comparative period of 2010 as a result of increased operations, the Company’s public listing on the TSX Venture Exchange, financing, option grants and a one-time charge related to the

Northern acquisition. Costs are expected to continue to increase as the Company continues to staff up its operations.

The stock option charge represents the fair value of the Company's stock options amortized over the respective vesting period via the graded vesting method. Pursuant to the plan, the Board of Directors determines the vesting provisions of the stock options 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. All unvested options vest upon the change of control of the Company. The options are non-transferable. The minimum exercise price is based on trading price of the Company's common shares on the date prior to the day of the grant less any applicable discount permitted by the TSX Venture Exchange. The future expense will vary as it is dependent on the number and vesting provisions of future stock option grants.

During the year ended December 31, 2011, the Company was charged $373,000 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 and the balance resulting from transactions and general operations. Included in accounts payable and accrued liabilities as at December 31, 2011 is $190,000 related to the legal fees incurred. The related party transactions are in the normal course of operations and measured at exchange amounts which are incurred under the same terms or conditions with other third parties.

***Exploration and Evaluation***

During the three month period and year ended December 31, 2011, $8,867,000 and $27,267,000, respectively of exploration and evaluation assets were capitalized. Details of the Company's properties have previously been discussed under the heading *Key Projects Update.* Costs of $15,793,000 were capitalised in the year in relation to the drilling of the Orlando well. A further $6,086,000 was capitalised as a result of the Orlando and West Wick acquisitions and $5,388,000 of other exploration and evaluation expenditure was capitalised across the assets. The majority of the expenditure in the quarter related to the drilling of the Orlando well.

As at December 31, 2011 and as of the date of this MD&A no costs are considered to be impaired, however, the assets have not yet determined to be technically feasible and commercially viable.

The Company's exploration and evaluation expense in the income statement represents all pre-license costs and the capitalized costs from exploration and evaluation assets that have been expensed. These costs represent unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore. The costs included in exploration and evaluation expense include pre-license costs and licence relinquishments. During the three months and year ended December 31, 2011, $149,000 (2010 - $194,000) and $348,000 (2010 - $424,000), respectively of pre-license costs were incurred. 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 $197,000 (2010 - $Nil) was expensed.

***Foreign exchange***

A portion of the Company's working capital is denominated in British Pound Sterling and US dollars. The fluctuating exchange rate between these currencies and the Canadian dollar created exchange gains and losses during the period. During the three months and year ended December 31, 2011 the Company experienced foreign exchange gains of $134,000 and $241,000 respectively (2010 losses of $14,000 and $13,000 for the respective three months and year end). The gains are primarily a result of the strengthening of the Canadian dollar against the other currencies.

### *Income Taxes*

Presently the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including commodity prices, future production, corporate expenses, and both the type and amount of capital expenditures incurred during in future reporting periods.

### Selected Annual Information

The consolidated financial statements of the Company and the financial data contained in the MD&A are prepared in accordance with IFRS. The consolidated financial statements include the accounts of Iona and its wholly-owned subsidiaries Iona Energy Company (UK) Limited ("Iona UK") and Iona Energy Company (US) Limited ("Iona US"). All inter-company transactions and balances have been eliminated on consolidation. A significant portion of the Company's North Sea oil and gas activities are carried out jointly with others. The consolidated financial statements reflect only the Company's proportionate interest in such activities.

The following table sets forth selected consolidated financial information of the Company for its three most recently completed fiscal years.

| *($ thousands, except per share amounts)* | Year ended December 31, 2011 | Year ended December 31, 2010 | Year ended December 31, 2009 |
|---|---|---|---|
| Total revenue | - | - | - |
| Net loss | 5,076 | 786 | 198 |
| Total assets | 72,120 | 2,978 | 1,568 |
| Total long-term financial liabilities | 170 | - | - |
| Loss per share – basic and diluted | 0.043 | 0.052 | 0.020 |

The net loss and total assets has increased each year mainly due to the growth of the business. As expected the continued growth and activity has increased general and administration costs, pre licence exploration and evaluation expense and also capitalized exploration and evaluation. The Company did not have any long-term liabilities until the end of 2011 when the estimated cost of decommissioning the Orlando Well was recognized.

### Liquidity and Capital Resources

As at December 31, 2011, Iona has a working capital surplus of approximately $36.45 million. The Company considers itself to be in the development stage, as it is in the process of exploring its petroleum and natural gas licenses and has not yet determined whether they contain reserves that are economically recoverable. The success of the Company's exploration and development of its petroleum and natural gas licenses will be influenced by significant financial risks, legal and political risks, fluctuations in commodity prices and currency exchange rates, varying levels of taxation and the ability of the Company to discover economically recoverable reserves and to bring such reserves into production on an economic basis. The Company has been required to obtain additional financing to develop its properties and this is discussed under the heading *Highlights Subsequent to the Year End*. While the Company seeks to manage these risks, many of these factors are beyond its control.

## Commitments

The Company has the following contractual obligations as at December 31, 2011:

| | 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 | **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 |

The acquisition commitments relate to West Wick and Kells and are discussed under the heading *Key Projects Update.* The decommissioning obligation relates to the Trent and Tyne field and the obligation of the Company to put GBP4.26 million into escrow as security for the future abandonment of the field. The drilling, completion, facility and construction commitments relate to the Orlando field.

The aforementioned contractual obligations will be funded from the Company's current working capital surplus and the raising of finance as discussed under the heading *Highlights subsequent to the Year end*.

## Financial Instruments

Crude oil and natural gas operations involve certain risks and uncertainties. These risks include, but are not limited to, commodity prices, foreign exchange rates, credit, operational and safety.

Operational risks are managed through a comprehensive insurance program designed to protect the Company from significant losses arising from risk exposures. Risks associated with commodity prices, interest and exchange rates are generally beyond the control of the Company; however, various hedging products may be considered to reduce the volatility in these areas.

Safety and environmental risks are addressed by compliance with government regulations as well as adoption and compliance of the Company's safety and environmental standards policy.

The Company will be exposed to concentration of credit risk as substantially all of the Company's accounts receivable will be with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company mitigates this risk by entering into transactions with long-standing, reputable counterparts and partners. If significant amounts of capital are to be spent on behalf of a joint venture partner, the partner is "cash called" in advance of the capital spending taking place.

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 year 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 for the three months and year ended December 31, 2011 would have impacted the comprehensive loss of the Company for the three months and year ended December 31, 2011 by approximately ($44,000) and $316,000 respectively (2010 - $Nil and $Nil).

In addition at December 31, 2011, the Company held approximately $6,321,847 (2010 - £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 for the three months and year ended December 31, 2011 would impact the comprehensive loss of the Company for the year ended December 31, 2011 by approximately $47,000 and $63,000 respectively (2010 - $Nil and $Nil).

**Outstanding Share Data**

The Company has authorized an unlimited number of Common shares, without nominal or par value and unlimited number of Preferred shares, issuable in series. The Company, as at December 31, 2011 had 140,860,568 Common shares, 254,500 warrants and 9,650,000 share options outstanding.

The following details the share capital structure as of the date of this MD&A:

| | Expiry Date | Exercise Price | Total Number |
|---|---|---|---|
| Common shares | | | 324,860,568 |
| Warrants | August 12, 2013 | $0.22 | 137,300 |
| | September 13, 2013 | $0.22 | 127,200 |
| Options | May 31, 2015 | $0.60 | 9,550,000 |
| | November 25, 2015 | $0.60 | 100,000 |
| | April 13, 2017 | $0.57 | 17,070,000 |

**Summary of Quarterly Results**

| *($ thousands, except per share amounts)* | Three months ended December 31, 2011 | Three months ended September 30, 2011 | Three months ended June 30, 2011 | Three months ended March 31, 2011 |
|---|---|---|---|---|
| Total revenue | - | - | - | - |
| Net loss | (1,050) | (607) | (2,694) | (725) |
| Comprehensive income (loss) | (2,674) | 1,892 | (4,028) | (842) |
| Net capital expenditures | 8,801 | 11,992 | 2,854 | 3,648 |
| Working capital surplus | 36,451 | 45,709 | 56,063 | 17,372 |
| Total assets | 72,120 | 69,450 | 66,320 | 68,652 |
| Loss per share – basic and diluted | 0.008 | 0.004 | 0.019 | 0.015 |

| *($ thousands, except per share amounts)* | Three months ended December 31, 2010 | Three months ended September 30, 2010 | Three months ended June 30, 2010 | Three months ended March 31, 2010 |
|---|---|---|---|---|
| Net and comprehensive loss | (446) | (106) | (216) | (18) |
| Net capital expenditures | - | 12 | - | 8 |
| Working capital surplus (deficiency) | 2,735 | 1,439 | (18) | (224) |
| Total assets | 2,978 | 3,066 | 1,559 | 1,636 |
| Loss per share – basic and diluted | 0.023 | 0.006 | 0.019 | 0.001 |

The increase in the loss during the quarters in the year ended December 31, 2011 in comparison to December 31, 2010 is due to the increase in operations as a result of the completion of the $69 million financing in March, which allowed the Company to complete the Orlando and Trent & Tyne acquisitions and expand operations and therefore incur increased costs as described under the headings *General and Administrative Costs* and *Exploration and Evaluation*.

The increase in capital expenditures during the quarters in the year ended December 31, 2011 is primarily related to the preparation and the drilling of the Orlando well.

**Highlights Subsequent to the Year End**

In addition to the events disclosed in the heading *Key project Update*, the Company had the following significant highlights subsequent to the year end:

In March 2012, the UK Government increased the Small Field Allowance ("SFA") tax shelter availability from the 32% Supplemental tax charge for small developments. The size of fields that qualify for full SFA was increased to include all fields with reserves of under 45 mmboe and the tax allowance available to each field has been doubled from approximately US$120million to US$240 million. The expectation is that this change will materially reduce the future effective tax rate of the Company.

On April 5, 2012, Iona Energy announced that 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. bank. 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.

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.

**Critical Accounting Estimates**

A summary of the Company's significant accounting policies is contained in note 3 to the consolidated financial statements. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Iona's control. The following is a discussion of the accounting estimates that are critical to the financial statements.

*Crude oil and natural gas assets - reserves estimates*
Iona will retain a qualified engineer to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced.

Reserve estimates will be a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area will be depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

Under the IFRS, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. 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 (the “cash-generating unit” or “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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. E&E assets are allocated to the related CGU‟s to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). An impairment loss is recognized in income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the impairment test. Revisions of these estimates could result in a write-down of the carrying amount of crude oil and natural gas properties.

*Decommissioning liabilities*
The Company will recognize the estimated fair value of the decommission liability in the period in which it is incurred, and records a corresponding increase in the carrying value of the related asset. The future asset retirement obligation is an estimate based on the Company’s ownership interest in wells and facilities and reflects estimated costs to complete the abandonment and reclamation as well as the estimated timing of the costs to be incurred in future periods. Estimates of the costs associated with abandonment and reclamation activities require judgement concerning the method, timing and extent of future retirement activities. The capitalized amount will be depleted on a unit-of-production method over the life of the proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and this accretion amount is charged to earnings in the period, which is included as a financing expense. Actual costs incurred on settlement of the decommissioning liability are charged against the liability. Judgements affecting current and annual expense are subject to future revisions based on changes in technology, abandonment timing, costs, discount rates and the regulatory environment.

*Share based payments*
Stock options issued to employees and directors under the Company’s stock option plan are accounted for using the fair value method of accounting for stock-based compensation. The fair value of the option is recognized as a share based payment and contributed surplus over the vesting period of the option. Share based payment is determined on the date of an option grant using the Black-Scholes option pricing model. The Black-Scholes pricing model requires the estimation of several variables including estimated volatility of Iona’s stock price over the life of the option, estimated option forfeitures, estimated life of the option, estimated risk-free rate and estimated dividend rate. A change to these estimates would alter the valuation of the option and would result in a different related share based payment.

*Income taxes*
Iona follows the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current tax is the expect tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting period, and any adjustment to tax payable in respect to previous periods. Tax interpretations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty and interpretations.

**Adoption of International Financial Reporting Standards (“IFRS”)**
The Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and presented in Canadian dollars. The Company adopted IFRS on January 1, 2011. Previously, Iona prepared its Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”).

The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Notes 3 and 16 of its December 31, 2011 Consolidated Financial Statements.

The adoption of IFRS had an impact on the previously reported 2010 statement of financial position and statement of operations and comprehensive income. Previously reported 2010 net loss was lower under IFRS due to:

| *($ thousands)* | Three months ended December 31, 2010 | Year ended December 31, 2010 |
|---|---|---|
| **2010 Net Loss under Canadian GAAP** | $ 252 | $ 362 |
| Exploration and evaluation costs | 194 | 424 |
| **2010 Net Loss under IFRS** | $ **446** | $ **786** |

## Accounting Policy Changes

The following discussion illustrates the significant differences between Canadian GAAP and the accounting policies applied by the Company under IFRS. IFRS 1 *First-time adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from retrospective application of certain IFRS. IFRS policies have been retrospectively applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS. The following adjustments were made to the financial statements upon conversion to IFRS from Canadian GAAP:

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 $1,452,000 at January 1, 2010 and $1,472,000 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 three months and the year ended December 31, 2010, $194,000 and $424,000 of exploration and evaluation assets was expensed as it related to exploration and evaluation (pre-license) costs.

*Foreign Currency Translation*
Under Canadian GAAP all foreign currency translation gains or losses, were recorded in the consolidated statement of net income (loss). IFRS requires that the functional currency of each entity in a consolidated group be determined separately and the translation gain or loss be recorded in the entity.

For consolidation purposes each entity whose functional currency is different from the presentation currency are translated as follows, assets and liabilities are translated at the current period end rate and revenue and expenses are translated at the period average rate. The resulting translation gains or losses is recorded as a foreign currency translation adjustment in shareholders' equity and included in the consolidated statement of comprehensive income (loss). Under Canadian GAAP non-monetary assets and liabilities were consolidated using historical rates.

## Accounting Pronouncements Not Yet Adopted

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.

**Control Environment**

As of December 31, 2011, there were no changes in our internal control over financial reporting that occurred during 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements and even those options determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation

## Risks and Uncertainties

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of Iona. The following section describes specific and general risks that could affect the Company. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware. Moreover, the likelihood that a risk will occur or the nature and extent of its consequences if it does occur, are not possible to predict with certainty, and the actual effect of any risk or its consequences on the business could be materially different from those described below.

*Reliance on Third Parties*
To the extent Iona is not the operator of its oil and natural gas properties, Iona will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators including the operators with respect to the properties acquired in the Orlando Acquisition and the properties to be acquired in the Trent & Tyne Acquisition.

*Foreign Operations*
Presently, all of Iona's oil and gas operations and assets are located in foreign jurisdictions. As a result, Iona is subject to political, economic and other uncertainties, including but not limited to changes, sometimes frequent and applied retroactively, in energy policies or the personnel administering them, nationalization, expropriation of property without fair compensation, cancellation or modification of contract rights, foreign exchange restrictions, currency fluctuations, royalty and tax increases, and other risks arising out of foreign governmental sovereignty over the areas in which Iona's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerilla activities and insurrections. Changes in legislation may affect Iona's oil and natural gas exploration and production activities. Iona's international operations may also be adversely affected by laws and policies of Canada as they pertain to foreign trade, taxation and investment.

In the event of a dispute arising in connection with its foreign operations, Iona may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in foreign jurisdictions. In addition, Iona's existing joint ventures and its subsidiaries were formed pursuant to, and their operations are governed by, a number of complex legal and contractual relationships. The effectiveness of and enforcement of such contracts and relationships with parties in these jurisdictions cannot be assured. Consequently, Iona's foreign exploration, development and production activities could be substantially affected by factors beyond Iona's control, any of which could have a material adverse effect on Iona.

*Financing Requirements and Liquidity*
It may take many years and substantial cash expenditures to pursue exploration activities on Iona's existing undeveloped properties. Accordingly, Iona is likely to need to raise additional funds from outside sources in order to explore and develop its properties in a timely manner.

Iona's financing risk relates to the availability and cost of equity or debt financing and is affected by many factors, including world and regional economic conditions, the state of international relations, the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation, fluctuations in the world and regional price of oil and gas and in interest rates, the outlook for the oil and gas industry in general and in areas in which Iona has or intends to have operations, and competition for funds from possible alternative investment projects. Although there have been improvements in the global economy and financial markets in recent months, there continues to be restrictions on the availability of credit which may limit Iona's ability to access debt or equity financing for its development projects.

Potential investors and lenders will be influenced by their evaluations of Iona and its projects, including their technical difficulty, and comparison with available alternative investment opportunities.

Iona continuously monitors its cash position, capital commitments and future capital requirements in order to ensure sufficient liquidity and capital resources are available. If adequate funds are not available, Iona will be required to scale back or even relinquish certain projects. If additional financing is raised by the issuance of shares from treasury, control of Iona may change and shareholders may suffer dilution.

*Loss from Operations*
Iona has an accumulated deficit at December 31, 2011 of $6,121,000 and at December 31, 2010 of $1,045,000. No assurance can be given that Iona will not experience operating losses or write-downs of its oil and gas properties in the future.

*Volatility of Crude Oil and Natural Gas Prices*
Crude oil and natural gas are commodities that are sensitive to numerous worldwide factors, which are beyond Iona's control, and are generally sold at contract or posted prices. Changes in world crude oil and natural gas prices may significantly affect Iona's results of operations and cash generated from operating activities. Consequently, such prices may also affect the value of Iona's oil and gas properties and the level of spending for oil and natural gas exploration and development.

Iona's crude oil prices are based on various reference prices, primarily the WTI crude oil reference price and other reference prices such as UK Brent Light. Occasionally a differential in price exists between WTI and UK Brent Light. Adjustments are made to the reference price to reflect quality differentials and transportation. WTI and other reference prices are affected by numerous and complex worldwide factors such as supply and demand fundamentals, economic outlooks, production quotas set by the Organization of Petroleum Exporting Countries ("OPEC") and political events. Occasionally quality differentials are affected by local supply and demand factors.

Any material declines in prices could result in a reduction of Iona's net production revenue. The economies of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Iona's reserves and Iona limiting or abandoning an exploration program on its undeveloped properties. Iona might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Iona's net production revenue. All of Iona's expenditures are subject to the effects of inflation and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation.

*Reserves and Resource Risks*
The reserve and resource data included herein are expressions of judgment based on knowledge, experience and industry practice. In general, estimates of economically recoverable oil and natural gas reserves and the future net revenue there from are based upon a number of variable factors and assumptions, such as expected reservoir characteristics based on geological, geophysical and engineering assessments; ultimate reserve recovery; timing and amount of capital expenditures; future production rates based on historical performance and expected future operating and investment activities; future oil and natural gas prices and quality differentials; marketability of oil and gas; royalty rates; assumed effects of regulation by governmental agencies; and future development and operating costs, all of which may vary materially from actual results. It should not be assumed that estimated future net revenue is representative of the fair market value of Iona's properties. In addition, estimated reserves may change from time to time based on new or reprocessed information or new interpretations of existing or new information.

The resources estimates provided herein are estimates only. The estimate of remaining recoverable resources includes contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be discovered. Actual recovery may be less. The estimate of remaining recoverable resources includes prospective resources that have been risked for chance of discovery, but have not been risked for chance of development. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development.

*Need to Replace Reserves*
Iona's future crude oil and natural gas reserves and production, and therefore its operating cash flows and results of operations, are highly dependent upon Iona's success in exploiting the current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, Iona's reserves and production will decline over time as reserves are produced. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the

ability to make the necessary capital investments to maintain and expand Iona's oil and natural gas reserves will be impaired.

*Oil and Gas Activities Involve Risks, many of which are beyond Iona's Control*
The business of exploration and production of oil and gas involves a high degree of risk which a combination of experience, knowledge and careful evaluation, may not be enough to eliminate any amount of the risk. Few properties that are explored are ultimately developed into producing oil and gas fields.

Iona's rights to exploit its oil and gas assets are limited in time. There is no guarantee or assurance that such rights can be extended or that new rights can be obtained to replace any rights that expire.

Significant expenditure is required to establish the extent of oil and gas reserves through seismic surveys and drilling and there can be no certainty that oil and gas reserves will be found.

It is difficult to project the costs of implementing drilling programs due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior wells or additional seismic data and interpretations thereof.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells, which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Iona's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Iona's control, including the availability of drilling and related equipment; the availability and proximity of pipeline capacity; the availability of processing capacity; the availability and productivity of skilled labor; the effects of inclement weather; unexpected cost increases; currency fluctuations; the supply of and demand for oil and natural gas; the availability of alternative fuel sources; accidental events; and regulation of the oil and natural gas industry by various levels of government and governmental agencies. Because of these factors, Iona could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it hopes to produce.

*Offshore Exploration*
Iona faces additional risks when conducting offshore activities. In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or other geological and mechanical conditions. Sub-sea tiebacks in the UK North Sea, while common, are also affected by weather conditions. Potential pipeline tie-backs can only be conducted from April to late September. Offshore oil and gas activities can also be affected by extreme weather and ocean phenomena arising from occurrences such as hurricanes and tsunamis. Due to general industry response to the BP Macondo Gulf of Mexico, it may be that extra delays in permitting and increased costs with respect to insured operations, oil spill mitigation and clean up will be incurred.

*Availability of Drilling Equipment and Access Restrictions*
Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Iona and may delay

exploration and development activities.  Iona is subject to the relatively limited availability of offshore drilling rigs to proceed with its UK North Sea drilling program.

*Access to Production Facilities and Pipelines*
Access to facilities and pipelines to process field production is an important consideration when developing fields in the North Sea.  Such access is not guaranteed and directly affects the economics of a project.  The United Kingdom government with the assistance of DECC has introduced a policy which has been adopted by the major operators of facilities in the North Sea that should allow access to facilities at a reasonable rate.

These types of initiatives are intended to ensure that reserves that cannot support facilities on a stand-alone basis can be developed.

*Licensing and Title Risks*
Iona's properties are generally held in the form of licences, concessions, permits and regulatory consents ("Authorizations").  Iona's activities are dependent upon the grant and maintenance of appropriate Authorizations, which may not be granted; may be made subject to limitations which, if not met, will result in the termination or withdrawal of the Authorization; or may be otherwise withdrawn.  Also, in the majority of its Authorizations, Iona is a joint interest-holder with another third party over which it has no control.  An Authorization may be revoked by the relevant regulatory authority if the other interest-holder is no longer deemed to be financially credible.  There can be no assurance that any of the obligations required maintaining each Authorization will be met.  Although Iona believes that the Authorizations will be renewed following expiry or granted (as the case may be), there can be no assurance that such Authorizations will be renewed or granted or as to the terms of such renewals or grants.  The termination or expiration of Iona's Authorizations may have a material adverse effect on Iona's results of operations and business.

In addition, the areas covered by the Authorizations are or may be subject to agreements with the proprietors of the land.  If such agreements are terminated, found void or otherwise challenged, Iona may suffer significant damage through the loss of opportunity to identify and extract oil or gas.

Title to oil and natural gas interests is often not determinable without incurring substantial expense.  In accordance with industry practice, Iona will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties.  The actual interest of Iona in certain properties may vary from its records.

*Reliance on Key Personnel*
The success of Iona will be largely dependent upon the performance of its management and key employees.  Failure by Iona to retain or to attract and retain additional key employees with necessary skills could have a materially adverse impact upon Iona's growth and profitability.  Iona has limited key person insurance for its management and none for other key employees.  These individuals, and the contributions they will make, are important to the future operations and success of Iona.

*Conflicting Interests with Partners*
Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have objectives and interests that may not coincide with Iona's interests and may conflict with Iona's interests. Unless the parties are able to compromise these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated.

In certain circumstances, the concurrence of co-venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from Iona's, even if they generally share Iona's objectives. Demands by or expectations of governments, co-venturers, customers, and others may affect Iona's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect Iona's participation in such projects or its ability to obtain or maintain necessary licences and other approvals.

*Foreign Currency Rate Risk*
A significant portion of Iona's activities is transacted in or referenced to United States dollars, Canadian dollars, British pounds sterling. Iona's operating costs and certain of Iona's payments, in order to maintain property interests, is incurred in the local currency of the jurisdiction where the applicable property is located. As a result, fluctuations in the Canadian dollar and British pounds sterling against the US dollar, and each of those currencies against any other local currencies in jurisdictions where properties of Iona are located, could result in unanticipated fluctuations in Iona's financial results which are denominated in Canadian dollars. Iona has not entered into any risk management contracts to hedge its exposure to foreign exchange rates.

*Commodity Price Risk*
From time to time Iona may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Iona would not benefit from such increases.

*Marketability of Crude Oil and Natural Gas*
The marketability and price of oil and natural gas produced and which may be acquired or discovered by Iona will be affected by numerous factors beyond the control of Iona. Iona will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil which are and may be produced by Iona. The ability of Iona to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Iona is also subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of its reserves to pipeline and processing facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

*Cyclical and Seasonal Impact of Industry*
Iona's operational results and financial condition are dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by global supply and demand factors, including weather and general economic conditions, as well as conditions in other oil and natural gas regions. A decline in oil and natural gas prices could have an adverse effect on Iona's financial condition.

*Competition*
The oil and gas industry is highly competitive particularly as it pertains to the search for and development of new sources of crude oil and natural gas reserves, the construction and operation of crude oil and natural gas pipelines and facilities, and the transportation and marketing of crude oil, natural gas, sulphur and other petroleum products. Iona's competitors include major integrated oil and gas companies and numerous other independent oil and gas companies, some of which have greater financial and other resources than Iona. The oil and natural gas industry is intensely competitive and Iona must compete in all aspects of its operations with a substantial number of other companies which have greater technical or financial resources. Substantially all of Iona's revenues are derived from oil and natural gas sales in the UK North Sea. There is no assurance that Iona will be able to successfully compete against its competitors. However, Iona strives to be competitive by maintaining a strong financial position and by using its network of international contacts and relationships to source and secure appropriate investment opportunities.

*Governmental Regulation*
The petroleum industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for natural gas and crude oil, increase costs and may have a material adverse impact on Iona. Export sales are subject to the authorization of provincial and federal government agencies and the corresponding governmental policies of foreign countries. Development of reserves and rates of return are also susceptible to changes in national fiscal policy.

The UK government does not assess a crown royalty against production. The current tax regime in the UK is favorable to companies of the Iona's size in that it allows full deductions of appraisal and development expense before any tax is payable. As of January 1, 2006, the supplementary tax rate applicable to North Sea oil and gas companies rose from 10% to 20%. This change resulted in an effective rate of corporation tax of 30% of profits after all capital and operating costs have been recovered, and an effective supplementary rate of 20% on profits after all capital and operating costs (excluding finance costs) have been recovered, resulting in an effective combined base and supplementary tax rate of no less than 50%. In 2009, a number of reforms were introduced to the North Sea fiscal regime aimed at fostering developments in smaller fields as well as more complex high pressure/high temperature and heavy oil fields. The smaller field relief is granted in respect of fields less than 20 mmbbls and is a potential benefit to Iona. Further favorable tax reforms were announced in January 2010 in which the additional tax allowances were extended to gas fields in frontier areas.

In March 24, 2011, the supplementary tax rate applicable to North Sea oil and gas companies increased unexpectedly from 20% to 32%. As a result, the effective combined base and supplementary tax rate rose from 50% to 62%.

In March 2012, the UK Government increased the Small Field Allowance ("SFA") tax shelter availability from the 32% Supplemental tax charge for small developments. The size of fields that qualify for full SFA was increased to include all fields with reserves of under 45 mmboe and the tax allowance available to each field has been doubled from approximately US$120million to US$240 million. The expectation is that this change will materially reduce the future effective tax rate of the Company.

Based on Iona's present stage of development, Iona is able to avail itself of tax efficiencies with respect to tax pools and small field allowances and therefore expects the supplementary tax rate changes to have a small but negative effect on the present net worth of Iona's reserves. Any further changes to these laws would impact the net present worth of Iona's reserves. No assurances can be given that such an event would not re-occur.

*Environmental Risks and Regulations*

All phases of the oil and gas industry present environmental risks and are subject to environmental regulation pursuant to a variety of international conventions and local laws and regulations. Such legislation provides for, among other things, restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites are operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability for pollution damage, and the imposition of fines and penalties which may be material. Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. No assurance can be given that environmental legislation will not result in a curtailment of production or a material increase in the costs of exploration, development or production activities or otherwise adversely affect Iona's financial condition, results of operations or prospects.

*Stage of Development*

Iona may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of Iona's development. The ability of Iona to manage growth effectively will require it to continue to expand its operational and financial systems and to train and manage its employee base. The inability of Iona to deal with this growth could have a material adverse impact on its business, operations and prospects.

*Strategic Partnerships*

As part of its development plan in the North Sea, Iona may consider the formation of strategic partnerships, potentially sharing development costs and, where appropriate, the acquisition or exchange of working interests. There is no assurance that any such strategic transaction will be entered into. If such strategic transaction is entered into, there is no assurance that such transaction will be successful.

*Write-Off of Unsuccessful Properties and Projects*
In order to realize the carrying value of its oil and gas properties and ventures, Iona must produce oil and gas in sufficient quantities and then sell such oil and gas at sufficient prices to produce a profit. Iona has a number of non-producing oil and gas properties. The risks associated with successfully developing such oil and gas properties are even greater than those associated with successfully continuing development of producing oil and gas properties, since the existence and extent of commercial quantities of oil and gas in unevaluated properties have not been fully established. Iona could be required to write-off some or all of its non-producing oil and gas properties if such projects prove to be unsuccessful.

*Insurance*
Iona's operations are subject to the risks normally associated with the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blowouts, cratering and fires, all of which could result in personal injuries, loss of life and damage to the property of Iona and others. In accordance with customary industry practice, Iona is not fully insured against all of these risks, nor are all such risks insurable. Damages and losses occurring as a result of such risks may give rise to claims against Iona.

Although Iona believes that it, or where applicable the operator, will carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances Iona's, or where applicable the operator's, insurance may not cover or be adequate to cover the consequences of such events. The payment of such uninsured liabilities would reduce the funds available to Iona. The occurrence of a significant event that is not covered or not fully covered by insurance, or the insolvency of the insurer of such event, could have a materially adverse effect on the business, financial condition and results of operations of Iona. Moreover, there can be no assurance that Iona will be able to maintain adequate insurance in the future at rates that it considers reasonable

*Regulatory Approvals*
The further development of Iona's properties requires the approval of applicable regulatory authorities to the plans of Iona with respect to the drilling and development of such properties. A failure to obtain such approval on a timely basis or material conditions imposed by such authority in connection with the approval would materially affect the prospects of Iona.

*Acquisition Risks*
Although Iona performs a review of properties prior to acquiring them that it believes is consistent with industry practice, such reviews are inherently incomplete. It is generally not feasible to review in depth every practice and every individual property involved in each acquisition. Generally, Iona will focus its due diligence efforts on higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Iona may be required to assume pre-closing liabilities, including environmental liabilities, and may acquire interest in properties on an "as is" basis.

*Force Majeure*
Iona's projects may be adversely affected by risks outside the control of Iona including labor unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

*Common Share Price Volatility*
The market price of Iona's common stock could be subject to wide fluctuations in response to Iona's results of operations, changes in earnings estimates by analysts, changing conditions in the oil and gas industry or changes in general market, economic or political conditions.

*Climate Change Impact*
Iona faces a variety of uncertainties related to climate change. The oil and gas industry is subject to extensive environmental regulation pursuant to legislation in the United Kingdom. These range from potential impacts from emissions restrictions, carbon taxes and other government policy initiatives, to changes in weather patterns that may affect operations. Although Iona is not a large emitter of

greenhouse gases, these forms of legislation may have an impact on both revenues and cost structures at a future undetermined time.

*Dilution from Further Equity Issuances*
If Iona issues additional equity securities to raise additional funding or as consideration for the acquisition of a company or assets, as the case may be, such transactions may substantially dilute the interests of Iona Shareholders, and reduce the value of their respective investment.

*Dividends*
The Company has neither declared nor paid any dividends on its Ordinary Shares since the date of its incorporation.  Any payments of dividends on the Ordinary Shares of the Company will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's board of directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

*Additional information relating to the Company is available on SEDAR at www.sedar.com.*