

**Iona Energy Inc.**  
**Condensed Consolidated Financial Statements - Unaudited**  
**For the three month period ended March 31, 2012**

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**Iona Energy Inc.**

**Condensed Consolidated Statements of Financial Position - Unaudited**

(In thousands of Canadian dollars)	Notes	March 31, 2012	December 31, 2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		13,518	41,608
Accounts receivable		239	388
Prepaid expenses		285	209
Restricted cash	3	1,841	1,293
<b>Total Current Assets</b>		<b>15,883</b>	<b>43,498</b>
Restricted cash	3	6,959	52
Deferred costs	4	1,690	315
Exploration and evaluation assets	4	51,375	28,235
Property and equipment		62	20
<b>Total Non-Current Assets</b>		<b>60,086</b>	<b>28,622</b>
<b>Total Assets</b>		<b>75,969</b>	<b>72,120</b>
<b>LIABILITIES AND SHAREHOLDERS'S EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		10,943	7,047
<b>Total Current Liabilities</b>		<b>10,943</b>	<b>7,047</b>
<b>Non-Current Liabilities</b>			
Decommissioning liabilities		174	170
<b>Total Non-Current Liabilities</b>		<b>174</b>	<b>170</b>
<b>Total Liabilities</b>		<b>11,117</b>	<b>7,217</b>
<b>Shareholders' Equity</b>			
Share capital		69,921	69,921
Contributed surplus		2,036	1,679
Accumulated other comprehensive income		41	(576)
Deficit		(7,146)	(6,121)
<b>Total Shareholders' Equity</b>		<b>64,852</b>	<b>64,903</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>75,969</b>	<b>72,120</b>

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

**Iona Energy Inc**

**Condensed Consolidated Statements of Operations and Comprehensive Loss - Unaudited**

(In thousands of Canadian dollars, except for per share and share amounts)	Notes	Three Months Ended March 31 2012	Three Months Ended March 31 2011
<b>Expenses</b>			
General and administrative		790	535
Exploration and evaluation costs	4	70	193
Foreign exchange (gain)/loss		175	(2)
		<u>1,035</u>	<u>726</u>
<b>Finance (income)/expense</b>			
Interest income		(12)	(1)
Accretion of decommissioning liability		2	-
		<u>(10)</u>	<u>(1)</u>
<b>Net Finance income</b>		<u>(10)</u>	<u>(1)</u>
<b>Net loss for the period</b>		<b>1,025</b>	<b>725</b>
<b>Unrealized foreign exchange (gain)/loss on net investments</b>		<b>(649)</b>	<b>117</b>
<b>Exchange differences loss on re-translation of foreign operations</b>		<b>32</b>	<b>-</b>
		<u>32</u>	<u>-</u>
<b>Comprehensive loss for the period</b>		<b>408</b>	<b>842</b>
<b>Net loss per share</b>			
- basic and diluted		\$ 0.007	\$ 0.015
<b>Weighted average shares outstanding</b>			
- basic and diluted <sup>(1)</sup>		<b>140,860,566</b>	<b>49,754,919</b>

*(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 condensed consolidated financial statements.

**Iona Energy Inc.**

**Condensed Consolidated Statements of Changes in Shareholders' Equity - Unaudited**

(In thousands of Canadian dollars)	Notes	Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Equity
Balance December 31, 2011		69,921	1,679	(576)	(6,121)	64,903
Net loss for the period		-	-	-	(1,025)	(1,025)
Stock based payments		-	357	-	-	357
Foreign currency translation		-	-	649	-	649
Unrealized foreign exchange on investment		-	-	(32)	-	(32)
<b>Balance March 31, 2012</b>		<b>69,921</b>	<b>2,036</b>	<b>41</b>	<b>(7,146)</b>	<b>64,852</b>

(In thousands of Canadian dollars)	Notes	Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Equity
Balance December 31, 2010		3,780	-	-	(622)	3,158
Net loss for the period		-	-	-	(725)	(725)
Unrealized foreign exchange on investment		-	-	(117)	-	(117)
Issue of shares (net of issue costs)		65,126	-	-	-	65,126
<b>Balance March 31, 2011</b>		<b>68,906</b>	<b>-</b>	<b>(117)</b>	<b>(1,347)</b>	<b>67,442</b>

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

**Iona Energy Inc.**

**Condensed Consolidated Statements of Cash Flows - Unaudited**

<b>(In thousands of Canadian dollars)</b>	<b>Notes</b>	<b>Three Months Ended March 31 2012</b>	<b>Three Months Ended March 31 2011</b>
<b>Cash flows from/(used in) operating activities</b>			
Net loss for the period		(1,025)	(725)
Items not involving cash:			
Depreciation		6	-
Decommissioning liabilities		2	-
Share based payments		357	-
		<u>(660)</u>	<u>(725)</u>
<i>Changes in non-cash working capital balances:</i>			
Accounts receivable		(61)	(161)
Prepaid expenses		(77)	(13)
Accounts payable and accrued liabilities		(317)	967
<b>Cash flow used in operating activities</b>		<u>(1,115)</u>	<u>68</u>
<b>Cash flows from/(used in) financing activities</b>			
Issue of common shares, net of issue costs		-	65,126
Restricted cash		-	(44,473)
<b>Cash flow from financing activities</b>		<u>-</u>	<u>20,653</u>
<b>Cash flows from/(used in) investing activities</b>			
Expenditures on property and equipment		(49)	(1)
Expenditures on exploration and evaluation		(18,127)	(3,648)
Deferred Costs		(1,374)	-
Restricted cash		(7,454)	-
<b>Cash flow used in investing activities</b>		<u>(27,004)</u>	<u>(3,649)</u>
Effect of exchange rate changes on cash		<u>29</u>	<u>(117)</u>
<b>Increase in cash</b>		<b>(28,090)</b>	<b>16,955</b>
Cash, beginning of period		<u>41,608</u>	<u>1,155</u>
<b>Cash, end of period</b>		<b>13,518</b>	<b>18,110</b>
<b>Supplemental information</b>			
Interest paid	\$	-	\$ -
Taxes paid	\$	-	\$ -

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

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**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

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**1. Corporate Information**

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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 - 3<sup>rd</sup> Street S.W., Calgary, Alberta, T2P 5C5. The registered office of the Company is located at 1600, 333-7<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 2Z1.

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**2. Basis of Presentation**

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**Statement of compliance**

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information or footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been condensed or omitted.

These condensed consolidated financial statements were approved and authorized for issuance by the Company's Board on May 29, 2012.

**Basis of preparation**

The condensed consolidated financial statements have been prepared using the same accounting policies and methods including significant judgments and estimates as those disclosed in note 3 of the consolidated financial statements for the year ended December 31, 2011. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011. There were also no changes since December 31, 2011 with respect to the Company's financial risk management policies or capital management practices.

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**3. Restricted Cash**

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**Current**

As of March 31, 2012, the Company had \$1,841,000 of restricted cash relating to net production revenues from the Trent & Tyne properties that will be held in trust until the Company completes its drilling commitment (note 4).

**Non-Current**

At March 31, 2011 and March 31, 2012, the Company had \$52,000 of cash held as deposits for work commitment guarantees contained in exploration contracts in Alaska.

At March 31, 2012, the Company had \$6,803,000 of restricted cash held for the Company's decommissioning liabilities on the Trent & Tyne properties and \$104,000 held as security against Company credit cards.

**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements - continued**  
For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

**4. Exploration and Evaluation Assets and Deferred Costs**

	E&E	Property Payments	Drilling Costs	Total - United Kingdom Segment	United States Segment	Total - E&E	Deferred Costs
Balance, December 31, 2011	5,701	6,019	15,621	<b>27,341</b>	<b>894</b>	<b>28,235</b>	<b>315</b>
Additions	2,800	8,483	11,257	<b>22,540</b>	<b>9</b>	<b>22,549</b>	<b>1,351</b>
Effect of changes in exchange rates	95	167	315	<b>577</b>	<b>14</b>	<b>591</b>	<b>24</b>
Balance, March 31, 2012	8,596	14,669	27,193	<b>50,458</b>	<b>917</b>	<b>51,375</b>	<b>1,690</b>

During the three months ended March 31, 2012, the Company expensed \$70,000 (2011 - \$193,000) of exploration and evaluation assets as they related to pre-license exploration and evaluation costs.

On May 27, 2011, the Company entered into an agreement with respect to the Trent & Tyne field whereby the Company agreed to a cost-capped work commitment of \$32,852,000 (£21,200,000) resulting in Iona earning a 20% non-operated working interest in the field. Upon completion of the work commitment, Iona shall assume its share of related Trent & Tyne field decommissioning liabilities. The Company is entitled to net production revenue from the effective date of September 1, 2010. The net production revenues will not be paid to the Company until the Company makes a payment of £20 million into a trust account for the work commitment. This payment was made on May 1, 2012. As of March 31, 2012, \$2,035,000 (December 31, 2011 - \$991,000) has been included in accounts payable and accrued liabilities in relation to the net production revenues. The Company has \$1,690,000 (December 31, 2011 - \$315,000) of net deferred costs as at March 31, 2012 which relate to the Company's share of planning and long lead items on the work commitment for the T5-z well.

On January 19, 2012, the Company 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 approved by the UK's Department of Energy and Climate Change ("DECC"). Iona reimbursed Fairfield on closing for USD\$8.5 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 USD\$5.0 million to Fairfield and pay a net royalty of USD\$2.50 per barrel of production from the Kells Oil Field.

On February 3, 2012, the Company entered into a sale and purchase agreement to acquire from Centrica Venture Production Company ("VPC") a 58.73 % interest in Block 13/21a of the West Wick Oil Field. The completion of this transaction is subject to a pre-emptive right, as well as partner and UK DECC approval. Under the terms of the agreement, Iona paid to VPC a holding deposit of USD \$3.15 million (paid April 15, 2011), and on completion will pay to VPC a sum of USD \$5 million.

**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements - continued**

For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

**5. Segment 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.

	<b>Three Month Period Ended March 31, 2012</b>			
	<b>United Kingdom</b>	<b>United States</b>	<b>Corporate</b>	<b>Total</b>
Depletion and depreciation	6	-	-	<b>6</b>
Expenses before finance income	(665)	-	(372)	<b>(1,037)</b>
Net Finance income	1	-	9	<b>10</b>
Net loss	(662)	-	(363)	<b>(1,025)</b>
	<b>As at March 31, 2012</b>			
Total assets	69,645	917	5,407	<b>75,969</b>
Total liabilities	10,657	-	460	<b>11,117</b>

	<b>Three Month Period Ended March 31, 2011</b>			
	<b>United Kingdom</b>	<b>United States</b>	<b>Corporate</b>	<b>Total</b>
Depletion and depreciation	-	-	-	-
Expenses before finance expense	(367)	-	(359)	<b>(726)</b>
Net Finance income	-	-	1	<b>1</b>
Net loss	(367)	-	(358)	<b>(725)</b>

	<b>As at December 31, 2011</b>			
	<b>United Kingdom</b>	<b>United States</b>	<b>Corporate</b>	<b>Total</b>
Total assets	59,869	894	11,357	<b>72,120</b>
Total liabilities	6,587	-	630	<b>7,217</b>

**6. Related Party Transactions**

During the three months ended March 31, 2012, the Company was charged \$128,000 (2011 - \$273,000), in legal fees of which \$120,000 (2011 - \$98,000) related to share issuance costs by a law firm where a director of the Company is a partner, of which \$6,000 is included in accounts payable and accrued liabilities as at March 31, 2012 and \$190,000 as at December 31, 2011.

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.



**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements - continued**  
For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

## 7. Commitments and Contingencies

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

Contractual Obligations	As at March 31, 2012				
	Payments Due in Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
<b>U.S. Segment</b>					
Exploration leases	239	14	38	59	128
<b>UK Segment</b>					
Office lease	308	95	189	24	-
Property Payments	9,990	9,990	-	-	-
Decommissioning obligation	6,803	-	-	-	6,803
Drilling, completion, facility construction	54,970	54,970	-	-	-
Seismic	51	51	-	-	-
Well data	4,192	4,192	-	-	-
<b>Total UK Segment</b>	<b>76,314</b>	<b>69,298</b>	<b>189</b>	<b>24</b>	<b>6,803</b>
<b>Corporate Segment</b>					
Office lease	18	18	-	-	-
<b>Total Contractual Obligations</b>	<b>76,571</b>	<b>69,330</b>	<b>227</b>	<b>83</b>	<b>6,931</b>

## 8. Subsequent Events

On April 5, 2012, Iona Energy announced that it has obtained final credit approval from a syndicate of lenders for the purposes of providing a 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 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 percent over-allotment 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.

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**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements - continued**

For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

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**8. Subsequent Events – continued**

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On May 1, 2012, the Company, in accordance with the sale and purchase agreement for the acquisition of the Trent & Tyne assets, paid £20 million into a trust account for the work commitment for the T5-z (Trent & Tyne Gas Fields) well, which is expected to spud during July 2012.

Pursuant to the terms of its stock option plan, the Company's Board of Directors approved the granting of options to purchase an aggregate of 17,070,000 common shares at a price of \$0.57 per share, of which, 15,650,000 options were granted to insiders. The options will have a term of five years and time vesting provisions with 25% vesting immediately and a further 25% vesting on the first, second and third anniversaries of the date of grant.

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**Iona Energy Inc.**  
**Notes to the Consolidated Financial Statements - continued**  
For the three months ended March 31, 2012 and 2011

(Unaudited - Tabular amounts are expressed in thousands Canadian dollars, except per share amounts or amounts as otherwise noted.)

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**CORPORATE INFORMATION**

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**DIRECTORS**

Neill A. Carson <sup>(3)(5)</sup>  
Aberdeen, Scotland

Brad Gunn <sup>(4)</sup>  
Calgary, Alberta

Donald Copeland <sup>(1)(2)(3)</sup>  
Calgary, Alberta

Roger Laing <sup>(2)(4)</sup>  
Calgary, Alberta

Rod Maxwell <sup>(1)(3)</sup>  
Calgary, Alberta

Jay Zammit <sup>(1)(2)(4)</sup>  
Calgary, Alberta

<sup>(1)</sup>Member of Audit Committee

<sup>(2)</sup>Member of Compensation Committee

<sup>(3)</sup>Member of Reserve Committee

<sup>(4)</sup>Member of the Governance Committee

<sup>(5)</sup>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

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**EXCHANGE LISTINGS**

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TSX-V: INA

**SECURITIES FILINGS**

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