Iona Energy Inc.
Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of Iona Energy Inc. ("Iona" or "the Company") for the three months ended March 31, 2012. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes of the Company as at and for the three months ended March 31, 2012, the MD&A and Annual Information Form ("AIF") for the year ended December 31, 2011, and the audited consolidated financial statements as at and for the year ended December 31, 2011. These accounts and additional information about Iona are available on SEDAR at www.sedar.com.

This MD&A is dated May 30, 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.

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 three months to March 31, 2012, 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

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. The Company 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 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.

The top of the Tarbert 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.

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.

During April 2012, MPX completed a side-tracking operation of the well in order to acquire additional reservoir data and fluid samples. Subsequent to March 31, 2012, the company has agreed to pay its share of these related costs which amount to £2.62 million ($4.2 million). On completion of this operation, the well was suspended for the later completion upon approval of the Orlando Field Development Plan (“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 Canadian Natural Resources Limited International’s Ninian platform, where a per-barrel tariff has been negotiated at Pounds Sterling (“GBP” or “£”) 4.00/bbl.

Trent & Tyne

The net production to Iona during the three months ended March 31, 2012 was 2.3 MMscfd and the average realized gas price was $9.04/mcf. The Company anticipates drilling the T5-z Well during July 2012. Upon completion and 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 net production by an incremental 11MMscfd (37.5% working interest to Iona).

During the quarter, in accordance with the sale and purchase agreement with Perenco, the Company issued a cash-backed letter of credit for £4.26 million ($6.8 million) for the Company’s share of future decommissioning costs for the Trent & Tyne properties.

Also in accordance with the sale and purchase agreement with Perenco, on May 1, 2012, Iona paid £20 million into a trust account as an upfront payment for the T5-z well. As a result, Iona’s share of the net production revenue will no longer be held in restricted cash but will be paid direct to Iona.

Kells (previously named “Staffa”)

In November 2011, the Company signed a Sale and Purchase Agreement with Fairfield Cedrus Limited (“Fairfield”) for the 100% ownership and operatorship in UK 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 the Department of Energy and Climate Change (“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 UK 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 (boepd) between the years 1992 and 1994 and ceased production when the Brent crude oil price was approximately $13 to $15 per barrel.

During the quarter, the Company awarded contracts for the drilling of the Kells development well, the most significant of which was a contract with Diamond Offshore Drilling (UK) Limited for the provision of its semi-submersible drilling rig, and also for the Kells field development covering project management, engineering, xmas trees and procurement of other equipment.

West Wick

On April 15th, 2011, Iona Energy Company (UK) Limited entered into an option agreement with Venture North Sea Oil Limited, now Centrica Venture Production Company (“VPC”), 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 during Q2 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 VPC a holding deposit of USD$3,150,000 in April 2011 and on completion will pay VPC a sum of USD$5,000,000. Upon completion of the acquisition of VPCs 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.

27th UK Licence Round

The Company’s growth will also continue through license rounds. At the end of April 2012, the Company bid on blocks that contain undeveloped discoveries with development potential. This is recognized as relatively low cost entry that could deliver high returns to shareholders. DECC are currently reviewing the bids and will announce its decisions during 4Q 2012.

General

On an ongoing basis, the Company reviews 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 results of such review may result in farm-outs, project financing or divestitures of certain assets.

Other Developments

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 USD$120million to USD$240 million. The expectation is that this change will materially reduce the future effective tax rate of the Company.

During the quarter, the Company was pleased to announce two new members of staff. Alan Curran was appointed as Chief Operating Officer of the Company effective March 1, 2012. Mr. Curran has more than 29 years of experience in the oil and gas exploration and production industry. He has been involved in a senior management capacity with a number of companies active in the United Kingdom sector of the North Sea. Ann Livingston was appointed as group Financial Controller. Based in Aberdeen, Mrs. Livingston comes to Iona most recently from Dana Petroleum plc ("Dana") where she spent 7 years managing external public company reporting and audits, and was a key member of numerous corporate and asset acquisitions and integrations.

Highlights Subsequent to the Period End

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

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. financial institution. 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 percent 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.

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.

General and Administrative Expenditure

($ thousands)	Three months ended March 31,	
General and administrative	**2012**	2011
Consulting fees / wages	**233**	162
Professional fees	**81**	180
Stock option expense	**357**	-
Bank charges	**35**	1
Travel and office costs	**84**	192
Total	**790**	535

General and administrative costs for the three months ended March 31, 2012 have increased from the comparative period of 2011 as a result of the growth and increased operations of the Company and option grants. 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 the 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 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 and the balance resulting from transactions and general operations.

The amounts related to share issuance costs have been included in pre-payments as the share issue had not closed at March 31, 2012. Included in accounts payable and accrued liabilities as at March 31, 2012 is $6,000 (2011 - $190,000) related to the legal fees incurred. The related party transactions are in the normal course of operations and measured at exchange amounts that are incurred under the same terms or conditions with other third parties.

Exploration and Evaluation

During the three months ended March 31, 2012, $22,549,000, of exploration and evaluation expenditure was capitalized. Details of the Company's properties have previously been discussed under the heading *Key Projects Update.* Costs of $11,257,000 were capitalised in the quarter in relation to the drilling of the Orlando well. A further $8,483,000 was capitalized as a result of the Kells acquisition and $2,809,000 of other exploration and evaluation expenditure was capitalised across the assets.

As at March 31, 2012 and as of the date of this MD&A no costs are considered to be impaired.

The Company's exploration and evaluation expense in the income statement represents all pre-license costs incurred prior to obtaining the legal rights to explore. The pre-licence costs included in exploration and evaluation expense for the three months ended March 31, 2012 is $70,000 (2011 - $193,000).

Foreign exchange

During the three months ended March 31, 2012 the Company recognized foreign exchange losses of $175,000 (2011 – foreign exchange gain of $2,000). The exchange loss arose primarily as a result of the weakening US dollar reducing the value of the US dollar working capital balances held in Iona Energy Company (UK) Limited, which is GBP functional.

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 future reporting periods.

Liquidity and Capital Resources

As at March 31, 2012, Iona has a working capital surplus of approximately $4.94 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. While the Company seeks to manage these risks, many of these factors are beyond its control. The Company has obtained additional financing to develop its properties and this is discussed earlier in the MD&A under the heading *Highlights Subsequent to the Period End*.

Commitments

The Company has the following contractual obligations as at March 31, 2012:

	As at March 31, 2012				
	Payments Due in Period (000's)				
Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
U.S. Segment					
Exploration leases	**239**	14	38	59	128
UK Segment					
Office lease	**308**	95	189	24	-
Property payments	**9,990**	9,990	-	-	-
Trent & Tyne Decommissioning obligation	**6,803**	-	-	-	6,803
Drilling, completion, facility construction	**54,970**	54,970	-	-	-
Seismic	**51**	51	-	-	-
Well data	**4,192**	4,192	-	-	-
Total UK Segment	**76,314**	69,298	189	24	6,803
Corporate Segment					
Office lease	**18**	18	-	-	-
Total Contractual Obligations	**76,571**	69,330	227	83	6,931

The acquisition commitments relate to West Wick and Kells and the drilling, completion, facility and construction commitments relate to committed capital expenditure on the Kells and Orlando fields as well as capital and operating expenditure on the Trent & Tyne fields, including the T5-z well. All of this expenditure is discussed under the heading Key Projects Update.

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 Period 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 period ended March 31, 2012, March 31, 2011, or thereafter.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash and restricted cash balances at March 31, 2012 would have impacted the comprehensive loss of the Company for the three months ended March 31, 2012 by approximately $172,000 (three months ended March 31, 2011 – $115,000).

In addition at March 31, 2012, the Company held approximately $10,482,000 (£6,564,000) of accounts payable and unearned revenue in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates as at March 31, 2012 would impact the comprehensive loss of the Company for the three months ended March 31, 2012 by approximately $105,000 (three months ended March 31, 2011 – $3,000).

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 March 31, 2012 had 140,860,568 Common shares, 264,500 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

The increase in common shares from the end of the quarter is a result of the equity financing discussed under the heading *Highlights Subsequent to the Period End.*

The options granted on May 13, 2017 is discussed under the heading *Highlights Subsequent to the Period End.*

Summary of Quarterly Results

($ thousands, except per share amounts)	Three months ended March 31, 2012	Three months ended December 31, 2011	Three months ended September 30, 2011	Three months ended June 30, 2011
Total revenue	-	-	-	-
Net loss	(1,025)	(1,050)	(607)	(2,694)
Comprehensive income (loss)	(408)	(2,674)	1,892	(4,028)
Net capital expenditures	22,597	8,801	11,992	2,854
Working capital surplus	4,940	36,451	45,709	56,063
Total assets	75,969	72,120	69,450	66,320
Loss per share – basic and diluted	0.007	0.008	0.004	0.019

($ thousands, except per share amounts)	Three months ended March 31, 2011	Three months ended December 31, 2010	Three months ended September 30, 2010	Three months ended June 30, 2010
Total revenue	-	-	-	-
Net loss	(725)	(446)	(106)	(216)
Comprehensive income (loss)	(842)	(446)	(106)	(216)
Net capital expenditures	3,648	-	12	-
Working capital surplus (deficiency)	17,372	2,735	1,439	(18)
Total assets	68,652	2,978	3,066	1,559
Loss per share – basic and diluted	0.015	0.023	0.006	0.019

The loss during the three months ended March 31, 2012 is comparable with the loss during the three months ended December 31, 2011 and a $300,000 increase over the loss recorded in the comparable period in 2011. The increase is mainly due to the completion of the $69 million financing in March 2011, which allowed the Company to complete the Orlando and Trent & Tyne acquisitions and expand operations and therefore incur increased costs.

The fluctuations in the comprehensive income/loss over the quarters are due to the movement in the Canadian dollar impacting the unrealized exchange on net investments and retranslation of foreign operations.

The increase in capital expenditures during the quarters is a result of the asset acquisitions during 2011 and 2012 and the subsequent spend on these assets as discussed in *Key Projects Update.* This capital expenditure is the main cause of the reduction in working capital surplus balances during the quarters.

Critical Accounting Estimates

The Company's management made judgements, assumptions and estimates in the preparation of these financial statements. Actual results may differ from those estimates. The accounting policies applied by the Company in the condensed consolidated financial statements for the three months ended March 31, 2012 are the same as those applied by the Company as described in Note 3 of the audited consolidated financials statements as at and for the year-ended December 31, 2011.

Accounting Policy Changes

There have been no significant changes in the three months ended March 31, 2012 to the upcoming changes in accounting policies identified in the MD&A for the year ended December 31, 2011.

Control Environment

As of March 31, 2012, there were no changes in our internal control over financial reporting that occurred during 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on the 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 and credit facilities 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 March 31, 2012 of $7,146,000 and at December 31, 2012 of $6,121,000. 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.

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.

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 and 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.

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.

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.

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.

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 Common Shares since the date of its incorporation. Any payments of dividends on the Common 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 that 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.

For additional information regarding the Company's risks and uncertainties, please refer to the Company's annual information form for the year ended December 31, 2011, which is available on SEDAR under the Company's profile at www.sedar.com.

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