

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 and six months ended June 30, 2012. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes of the Company as at June 30, 2012 and with the MD&A, Annual Information Form ("AIF") and the audited consolidated financial statements for the year ended December 31, 2011. Copies of these documents and additional information about Iona are available on SEDAR at www.sedar.com.

This MD&A is dated August 23, 2012. All currency amounts are expressed in Canadian Dollars ("C\$") unless otherwise stated.

Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements, including without limitation, statements regarding Iona's plans for the development of its properties, statements regarding estimates of the proved reserves, probable reserves, possible reserves, as well as estimates of the net present value of future net revenue of proved reserves, probable reserves, and possible reserves, and statements regarding estimated peak production rates." 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: the risk that Iona's development plans change as a result of new information or events, the risk that drilling results differ materially from management's current estimates, the risk that actual production rates will be significantly lower than estimated peak production rates, 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) Limited ("Iona UK"), in the United Kingdom's Continental Shelf ("UKCS").

Over the three and six months to June 30, 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

During April 2012, MPX North Sea Limited ("MPX"), as operator of the Orlando field, completed a side-tracking operation of the Orlando well in order to acquire additional reservoir data and fluid samples. During the 2nd quarter of 2012, the Company paid its share of these related costs that amounted 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").

On July 9, 2012, the Company announced that Iona UK, completed the purchase of its partners' interests, MPX (30%) and Sorgenia E&P (UK) Ltd ("Sorgenia") (35%), in the Orlando Oil field in exchange for the payment of historical costs and future payments out of production. Pursuant to the terms of the sale and purchase agreements with MPX and Sorgenia, within 14 business days after the earlier of the date of Orlando FDP approval by DECC or December 30, 2012, Iona will pay to Sorgenia and MPX their historical costs of the Orlando Development to-date, approximating USD\$48.65 million ("Deferred Payment"). The Company has guaranteed the Deferred Payment and this guarantee will remain in full force and effect until the Deferred Payment has been made. Additionally, future staged payments will be made by Iona to Sorgenia and MPX commencing six months after first production from Orlando. The first payment will be USD\$7.0 million with additional payments of USD\$7.0 million, USD\$7.0 million, USD\$4.0 million, and USD\$4.0 million made every six months thereafter respectively, amounting to a total payment of USD\$29.0 million over 3 years.

As part of the Orlando acquisition, Iona performed an engineering and portfolio review of the operator's development plans and its own development plans at Kells to determine the optimal go forward program. As a result, it was determined the ideal sequencing put the Orlando development ahead of the Kells development. The results of the review were driven by several factors, including:

- Orlando is expected to deliver higher net revenue due to greater expected initial Brent oil production (Orlando 14,000 peak bopd vs. Kells 5,800 boepd);
- Preferential alignment with CNRL International Limited's ("CNRL") work program at Orlando's tie-back host, the Ninian Central Platform ("NCP"), during its planned maintenance shutdown window in September;
- First Orlando development well is currently suspended awaiting re-entry and bottom-hole completion;
- Delay in the expected arrival of the Ocean Nomad semi-submersible drilling rig to drill the development well at Kells.

The Orlando Environmental Statement and consultation with DECC is now complete. A re-engineered Orlando FDP is being finalized for submission to DECC. Optimized engineering for Orlando is expected to provide peak production at a rate of over 14,000 bopd. The Company has also secured two subsea Xmas trees and additional subsea equipment and services to advance the Orlando development. The Company expects to receive final DECC FDP approval for the re-engineered Orlando FDP in the first quarter 2013.

Kells (previously named "Staffa")

On June 7, 2012, the Company announced that Gaffney Cline & Associates Ltd. ("GCA") completed an independent reserves report (the "GCA Kells Report") evaluating Iona's UK North Sea 100% owned Kells project based on Iona's revised development plan effective as of March 31, 2012 using GCA's forecast prices and costs. GCA has determined the Pre-Tax Net Present Value, discounted at 10% ("NPV10"), of Kells Proved plus Probable ("2P") reserves have increased to USD\$358.4 million, up from USD\$164.9 million as previously reported as of December 31, 2011, an increase of more than 117%. Post-Tax NPV10 valuation of Kells 2P reserves increased from USD\$88.4 million to USD\$161.3 million, an increase of more than 82%. Based on the GCA Kells Report, Iona also reports a significant increase in Kells 2P reserves to 8.9 MMboe from the 6.6 MMboe previously disclosed by Iona as of December 31, 2011, an increase of 35%.

As previously announced, the Kells oil and gas FDP has been submitted to DECC. Engineering work is ongoing on the Ninian Central Platform for the Kells production entry point and processing stream. Iona has secured two subsea Xmas trees for Kells. Management expects to receive final FDP approval from DECC early in the first quarter of 2013.

Trent & Tyne

The net production to Iona during the three and six months ended June 30, 2012 was 2.3 MMscf/d and the average realized gas price was \$8.67/mcf and \$8.86/mcf respectively.

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 side-track of the T5-z well. As a result, Iona's share of the net production revenue from Trent & Tyne is no longer being held in restricted cash but is being paid direct to Iona.

On August 13, 2012, Perenco advised the Company that the EnSCO 80 jack-up rig had commenced operations to side-track the T5 production gas well. Iona owns a 20 per cent interest in both Trent and Tyne Gas Fields with an option to increase interest in both the Fields to 37.5 per cent. Drilling operations are planned to side-track the original T5 well that historically flowed at a production rate of 25 MMscf per day from the Carboniferous Ketch reservoirs located within the Tyne North compartment of the field. Pressure testing of the T5 well conducted in March 2009 has indicated that the targeted reservoir pressure behind pipe is 5,126 pounds per square inch.

The objective of the T5z side-track is to relocate the high water-cut vertical production well up-structure and complete with a high angle reservoir section. It is anticipated that the standoff from the identified gas water contact will be increased and gas production re-established at Trent & Tyne at an initial rate of 20 MMscf/d and a first 12 month average gas production rate of 17.3 MMscf/d.

The duration of the drilling operation and re-completion for onset of production is estimated to take 90 days. Iona's net cost exposure is capped at £21.2 million (approximately USD\$32.9 million).

West Wick

On July 10, 2012 the Company sought and received a completion date extension to its previously announced Purchase and Sale Agreement with Centrica Venture Production Company ("VPC") to purchase a 58.7% working interest in the West Wick discovery contained in UK Block 13/21a. All partner consents have been received and the Company expects to receive UK DECC approval of the license transfer at the end of August 2012 at which time the Company will pay VPC a sum of USD\$5,000,000.

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 in DECC's 27th UK licence round auction that contain undeveloped discoveries with development potential. This is recognized as relatively low cost entry that could deliver high returns to shareholders. DECC is currently reviewing the bids and is expected to announce the successful bidders during Q4 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

On April 11, 2012, the Company announced the closing of a \$92 million equity financing. A total of 184 million common shares of the Company ("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. Also on May 4, 2012, 44,400 shares were issued at \$0.22 pursuant to exercise of agent warrants. These share issues increased the share capital of 140,860,568 Common Shares as at December 31, 2011 and March 31, 2012 by 184,044,400 to 324,904,968 and decreased the 264,500 warrants as at December 31, 2011 to 220,100 as of the date hereof. The increase in share capital during the three and six months to June 30, 2012, net of issue costs amounted to \$86,064,000.

As previously announced, the Company 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"). This facility is subject to final documentation and conditions precedent which are currently being negotiated.

On April 13 and June 18, 2012, pursuant to the terms of its stock option plan, the Company's Board of Directors approved the granting of 17,070,000 and 210,000, respectively, of stock options to purchase Common Shares to directors, officers, employees and consultants of the Company. The options will have an exercise price of \$0.57 and \$0.47 respectively, for 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.

Highlights Subsequent to the Period End

In addition to the events disclosed in the heading *Key Projects Update* and *Other Developments*, the Company also announced that in light of its acquisition of the remaining interest in the Orlando development and corresponding planned capital expenditures, the Company is in the process of seeking aligned partners to share in the development of both the Orlando and Kells assets.

General and Administrative Expenditure

| (\$ thousands) | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------------|-----------------------------|-------|---------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| General and administrative | | | | |
| Consulting fees / wages | 303 | 278 | 535 | 440 |
| Professional fees | 246 | 322 | 328 | 533 |
| Stock option expense | 2,069 | 1,016 | 2,426 | 1,016 |
| Bank charges | 6 | 1 | 41 | 2 |
| Travel, office costs and other | 295 | 219 | 379 | 380 |
| NLAC acquisition charge | - | 525 | - | 525 |
| Total | 2,919 | 2,361 | 3,709 | 2,896 |

General and administrative costs for the three and six months ended June 30, 2012 have increased from the comparative periods of 2011 mainly as a result of the growth and increased operations of the Company and the higher stock option expense which resulted from a larger number of options granted. Costs are expected to continue to increase as the Company continues to staff up its operations. Also, a one-time charge was incurred in relation to the amalgamation with Northern Lights Acquisition Corp. during the three and six month period ended June 30, 2011.

During the three and six month period ended June 30, 2012, the Company was charged \$199,000 (2011 - \$166,000) and \$327,000, respectively, (2011 - \$440,000) in legal fees of which \$220,000 (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. Included in accounts payable and accrued liabilities as at June 30, 2012 is \$46,000 (December 31, 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 and six months ended June 30, 2012, \$14,520,000 and \$37,069,000, respectively, 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 \$5,683,000 and \$16,940,000 were capitalised during the three and six month period, respectively in relation to the drilling of the Orlando well. A further \$8,483,000 was capitalized during the six month period as a result of the Kells acquisition and \$8,826,000 and \$11,635,000, respectively of other exploration and evaluation expenditure was capitalised across the assets.

As at June 30, 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 and six months ended June 30, 2012 are \$229,000 (2011 - \$171,000) and \$299,000 (2011 - \$364,000) respectively.

Foreign exchange

During the three and six months ended June 30, 2012 the Company recognized foreign exchange gains of \$204,000 (2011 – foreign exchange loss of \$168,000) and \$29,000 (2011 – foreign exchange loss of \$165,000) respectively. The exchange gains arose primarily as a result of the strengthening of the US dollar increasing 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.

Commitments

Based on management's best estimate, the Company has the following contractual obligations as at June 30, 2012:

| Contractual Obligations | Payments Due in Period (000's) | | | | |
|---|--------------------------------|------------------|--------------|--------------|-------------------|
| | Total | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| U.S. Segment | | | | | |
| Exploration leases | 244 | 14 | 39 | 60 | 131 |
| UK Segment | | | | | |
| Office lease | 284 | 95 | 189 | - | - |
| Decommissioning obligation - Trent & Tyne | 6,915 | - | - | - | 6,915 |
| Drilling, completion, facility construction | 67,336 | 65,357 | 1,979 | - | - |
| Total UK Segment | 74,535 | 65,452 | 2,168 | - | 6,915 |
| Corporate Segment | | | | | |
| Office lease | 12 | 12 | - | - | - |
| Total Contractual Obligations | 74,791 | 65,478 | 2,207 | 60 | 7,046 |

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*.

Liquidity and Capital Resources

The Company manages its capital with the prime objectives of safeguarding the business as a going concern, creating investor confidence, maximizing long-term returns and maintaining an optimal structure to meet its financial commitments and to strengthen its working capital position. At present, the capital structure of the Company is primarily composed of shareholders' equity. The Company's strategy is to access capital, primarily through equity issuances and reserve based lending, to preserve a strong capital base with the objectives of maintaining financial flexibility and sustaining the future development of the business. The Company actively manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile.

In order to uphold its capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. On April 11, 2012, the Company closed a \$92 million equity financing and on April 5, 2012, final credit approval was received for a USD\$130 million secured reserve based credit facility (see *Other Developments*). This facility is subject to final documentation and conditions precedent which are currently being negotiated.

As at June 30, 2012, Iona has a working capital surplus of approximately \$71.5 million and commitments as noted in the section above due in less than one year of \$65.5 million and total commitments of \$74.8 million. Further commitments were entered into after June 30, 2012 as detailed in *Key Projects Update*. In order to fund these commitments, the Company is continuing to work with

its lenders to close the USD\$130MM credit facility and is also in the process of seeking aligned partners to share in the development of both the Orlando and Kells assets. At present, the Company does not intend to issue further shares to fund these commitments. In the event that adequate funds from credit facilities, suitable aligned partners or cash flows are not attained, Iona may be required to scale back certain projects or to raise additional funds.

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 June 30, 2012, June 30, 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 June 30, 2012 would have impacted the comprehensive loss of the Company for the six months ended June 30, 2012 by approximately \$625,000 (six months ended June 30, 2011 – \$412,000).

In addition at June 30, 2012, the Company held approximately \$16,939,000 (£10,598,000) of accounts payable and unearned revenue in British Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates as at June 30, 2012 would impact the comprehensive loss of the Company for the six months ended June 30, 2012 by approximately \$169,000 (six months ended June 30, 2011 – \$4,000).

Outstanding Share Data

The Company has authorized an unlimited number of Common Shares, without nominal or par value and an unlimited number of Preferred shares, issuable in series. As at June 30, 2012, the Company had 324,904,968 Common Shares, 220,100 warrants and 26,930,000 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 | | | 324,904,968 |
| Warrants | August 12, 2013 | \$0.22 | 92,900 |
| | 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 |
| | June 18, 2017 | \$0.47 | 210,000 |

The increase in common shares from December 31, 2011 and March 31, 2012 is a result of the equity financing discussed under the heading *Other Developments*.

The stock options granted on April 13, 2012 and June 18, 2012 are discussed under the heading *Other Developments*.

Summary of Quarterly Results

| <i>(\$ thousands, except per share amounts)</i> | Three months ended June 30, 2012 | Three months ended March 31, 2012 | Three months ended December 31, 2011 | Three months ended September 30, 2011 |
|---|--|---|--|---|
| Total revenue | - | - | - | - |
| Net loss | (2,883) | (1,025) | (1,050) | (607) |
| Comprehensive income (loss) | (2,594) | (408) | (2,674) | 1,892 |
| Net capital expenditures | 14,524 | 22,597 | 8,801 | 11,992 |
| Working capital surplus | 71,514 | 4,940 | 36,451 | 45,709 |
| Total assets | 167,321 | 75,969 | 72,120 | 69,450 |
| Loss per share – basic and diluted | 0.010 | 0.007 | 0.008 | 0.004 |

| <i>(\$ thousands, except per share amounts)</i> | Three months ended June 30, 2011 | Three months ended March 31, 2011 | Three months ended December 31, 2010 | Three months ended September 30, 2010 |
|---|--|---|--|---|
| Total revenue | - | - | - | - |
| Net loss | (2,694) | (725) | (446) | (106) |
| Comprehensive income (loss) | (4,028) | (842) | (446) | (106) |
| Net capital expenditures | 2,854 | 3,648 | - | 12 |
| Working capital surplus (deficiency) | 56,063 | 17,372 | 2,735 | 1,439 |
| Total assets | 66,320 | 68,652 | 2,978 | 3,066 |
| Loss per share – basic and diluted | 0.019 | 0.015 | 0.023 | 0.006 |

The net loss increased significantly during the three months ended June 30, 2012. This is mainly due to the ramp up in operations and activity, the completion of the \$92 million financing in April 2012 and higher stock option expense as a result of the options granted in the quarter.

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 majority of the quarters. The working capital surplus increased for the 3 months to June 30, 2012 as a result of the equity raise as discussed in *Other Developments*.

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 six months ended June 30, 2012 are the same as those applied by the Company as described in note 3 of the audited consolidated financial statements as at and for the year-ended December 31, 2011.

Accounting Policy Changes

There have been no significant changes in the six months ended June 30, 2012 to the upcoming changes in accounting policies identified in the MD&A for the year ended December 31, 2011.

Control Environment

As of June 30, 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. In the event that adequate funds

from credit facilities, suitable aligned partners or cashflows are not attained, Iona may be required to scale back certain projects or to raise additional funds.

Loss from Operations

Iona has an accumulated deficit at June 30, 2012 of \$10,029,000 and at December 31, 2011 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 USD\$120million to USD\$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.

Notes Regarding Oil and Gas Disclosure

As used in this MD&A, "boe" means barrel of oil equivalent on the basis of 6 mcf of natural gas to 1 bbl of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

It should not be assumed that the present worth of estimated future net revenue represents the fair market value of the reserves disclosed in this MD&A. The reserve and related revenue estimates set forth in this MD&A are estimates only and the actual reserves and realized revenue may be greater or less than those calculated. The estimates of reserves and future net revenue for individual properties

may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

As used in this MD&A, "possible reserves" are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

Additionally, this MD&A uses certain abbreviations as follows:

| Oil and Natural Gas Liquids | | Natural Gas | |
|------------------------------------|-----------------------------------|--------------------|---|
| bbls | barrels | mcf | thousand cubic feet |
| Mbbls | thousand barrels | mcf/d | thousand cubic feet per day |
| MMbbls | million barrels | scf | standard cubic foot |
| MMboe | million barrels of oil equivalent | MMscf | millions of standard cubic feet |
| bbls/d | barrels per day | MMscf/d | millions of standard cubic feet per day |
| bopd | barrels of oil per day | Bscf | billion standard cubic feet |
| NGLs | natural gas liquids | | |

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