Iona Energy Inc.
Condensed Consolidated Financial Statements - Unaudited
September 30, 2012

Contents

(In thousands of Canadian dollars)	Notes	September 30, 2012	December 31, 2011
ASSETS			
Current Assets			
Cash		**37,906**	41,608
Accounts receivable		**1,068**	388
Prepaid expenses		**461**	209
Restricted cash	3	**31,856**	1,293
Total Current Assets		**71,291**	43,498
Restricted cash	3	**8,877**	52
Deferred costs	4	**19,458**	315
Exploration and evaluation assets	4	**79,590**	28,235
Property and equipment		**61**	20
Total Non-Current Assets		**107,986**	28,622
Total Assets		**179,277**	72,120
LIABILITITES AND SHAREHOLDERS'S EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**31,095**	7,047
Total Current Liabilities		**31,095**	7,047
Non-Current Liabilities			
Decommissioning liabilities		**176**	170
Total Non-Current Liabilities		**176**	170
Total Liabilities		**31,271**	7,217
Shareholders' Equity			
Share capital		**155,985**	69,921
Contributed surplus	5	**4,902**	1,679
Accumulated other comprehensive income		**(605)**	(576)
Deficit		**(12,276)**	(6,121)
Total Shareholders' Equity		**148,006**	64,903
Total Liabilities and Shareholders' Equity		**179,277**	72,120

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

(In thousands of Canadian dollars, except for per share and share amounts)		Three Months Ended September 30		Nine Months Ended September 30	
	Notes	**2012**	2011	**2012**	2011
Expenses					
General and administrative		**1,832**	860	**5,542**	3,756
Exploration and evaluation costs	**4**	**313**	31	**612**	396
Foreign exchange (gain)/loss		**169**	(273)	**140**	(108)
		2,314	618	**6,294**	4,044
Finance (income)/expense					
Interest income		**(69)**	(11)	**(145)**	(18)
Accretion of decommissioning liability		**2**	-	**6**	-
Net finance income		**(67)**	(11)	**(139)**	(18)
Net loss for the period		**2,247**	607	**6,155**	4,026
Unrealized foreign exchange (gain)/loss on net investments		**945**	(2,500)	**5**	(1,048)
Exchange differences (gain)/loss on translation of foreign operations		**(10)**	-	**24**	-
Comprehensive loss/(gain) for the period		**3,182**	(1,893)	**6,184**	2,978
Net loss per share - basic and diluted		$ **0.0069**	0.0043	**$ 0.0240**	0.0365
Weighted average shares outstanding - basic and diluted (1)		**324,904,968**	140,860,566	**256,388,360**	110,023,142

(1) Options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive

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

(In thousands of Canadian dollars)	Notes	Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Equity
Balance December 31, 2011		**69,921**	**1,679**	**(576)**	**(6,121)**	**64,903**
Net loss for the period		**-**	**-**	**-**	**(6,155)**	**(6,155)**
Stock based payments		**-**	**3,223**	**-**	**-**	**3,223**
Exchange differences loss on translation of foreign operations		**-**	**-**	**(24)**	**-**	**(24)**
Unrealized foreign exchange gain/ (loss) on net investments		**-**	**-**	**(5)**	**-**	**(5)**
Issue of shares (net of issue costs)		**86,064**	**-**	**-**	**-**	**86,064**
Balance September 30, 2012		**155,985**	**4,902**	**(605)**	**(12,276)**	**148,006**

(In thousands of Canadian dollars)	Notes	Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Equity
Balance December 31, 2010		3,780	-	-	(1,045)	2,735
Net loss for the period		-	-	-	(4,026)	(4,026)
Stock based payments		-	1,354	-	-	1,354
Unrealized foreign exchange gain/ (loss) on net investments		-	-	1,048	-	1,048
Issue of shares (net of issue costs)		66,140	-	-	-	66,140
Balance September 30, 2011		69,920	1,354	1,048	(5,071)	67,251

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

(In thousands of Canadian dollars)	Notes	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Cash flows from/(used in) operating activities			
Net loss for the period		**(6,155)**	(4,026)
Items not involving cash:			
Depreciation		**20**	6
Excess of consideration over net assets acquired on capital transaction		**-**	525
Decommissioning liabilities		**6**	-
Share based payments		**3,223**	1,354
		(2,906)	(2,141)
Changes in non-cash working capital balances:			
Accounts receivable		**(750)**	(247)
Prepaid expenses		**68**	(182)
Accounts payable and accrued liabilities		**7**	1,495
Cash flow used in operating activities		**(3,581)**	(1,075)
Cash flows from/(used in) financing activities			
Issue of common shares, net of issue costs		**85,932**	65,340
Cash acquired on capital transaction		**-**	555
Cash flow from financing activities		**85,932**	65,895
Cash flows from/(used in) investing activities			
Expenditures on property and equipment		**(61)**	(24)
Expenditures on exploration and evaluation		**(27,680)**	(17,939)
Deferred Costs		**(19,143)**	-
Restricted cash		**(39,387)**	(1,274)
Cash flow used in investing activities		**(86,271)**	(19,237)
Effect of exchange rate changes on cash		**218**	656
Increase in cash		**(3,702)**	46,239
Cash, beginning of period		**41,608**	1,155
Cash, end of period		**37,906**	47,394

Supplemental information		
Interest paid	**$ -**	$ -
Taxes paid	**$ -**	$ -

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

1. Corporate Information

Iona Energy Inc. ("Iona" or "the Company") is a publicly traded junior oil and gas company on the TSX Venture Exchange ("TSX-V") under the symbol INA engaged in the evaluation, acquisition, exploration and development of oil and gas properties in the United Kingdom's North Sea and in Alaska.

The head office of Iona is located at Bankers Hall, West Tower, Suite 1000, 888 - 3rd Street S.W., Calgary, Alberta, T2P 5C5. The registered office of the Company is located at 1600, 333-7th Avenue S.W., Calgary, Alberta T2P 2Z1.

2. Basis of Presentation

Statement of compliance

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

These condensed consolidated financial statements were approved and authorized for issuance by the Company's Board on November 28, 2012.

Basis of preparation

The condensed consolidated financial statements have been prepared using the same accounting policies and methods, including significant judgments and estimates as those disclosed in note 2 of the consolidated financial statements for the year ended December 31, 2011. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011. There were also no changes since December 31, 2011 with respect to the Company's financial risk management policies or capital management practices.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they come due.

The Company currently has commitments due in less than 12 months of approximately $74.7 million including, $47.3 million that is due to be paid in relation to the recent acquisition of the additional 65% interest in the Orlando licence; capital expenditure on the Kells and Orlando developments and its drilling obligations on the T&T interests.

The ability of Iona to meet these commitments is dependent upon raising additional financing by completing a joint venture sale with an industry partner or by issuing debt or equity securities.

Management is in the process of negotiating terms on various financing arrangements and joint venture sales agreements (note 9). Management expects these transactions to be finalized in time for Iona to meet their obligations as they come due. If the Company is unable to secure the required financing or complete a joint venture sale in a timely manner there would be significant doubt about the Company's ability to continue as a going concern.

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

3. Restricted Cash

Current
As of September 30, 2012, the Company had $31,856,000 of restricted cash (December 31, 2011 - $1,293,000), which will be held in trust until the Company completes its drilling commitment on the Trent and Tyne properties (note 4).

Non-Current
At September 30, 2012 and December 31, 2011, the Company had $52,000 of cash held as deposits for work commitment guarantees contained in exploration contracts in Alaska.

At September 30, 2012, the Company had $6,757,000 of restricted cash (December 31, 2011 - $Nil) held for the Company's decommissioning liabilities on the Trent & Tyne properties, $1,965,000 (December 31, 2011 - $Nil) held until the completion of long lead items and $103,000 (December 30,2011 - $Nil) held as security against Company credit cards.

4. Exploration and Evaluation Assets and Deferred Costs

	E&E	Property Payments	Drilling Costs	**Total - United Kingdom Segment**	**United States Segment**	**Total – E&E**	**Deferred Costs**
Balance, December 31, 2011	5,701	6,019	15,621	**27,341**	**894**	**28,235**	**315**
Additions	20,633	13,523	16,940	**51,096**	**11**	**51,107**	**19,140**
Effect of changes in exchange rates	52	55	141	**248**	**-**	**248**	**3**
Balance, September 30, 2012	26,386	19,597	32,702	**78,685**	**905**	**79,590**	**19,458**

During the three and nine months ended September 30, 2012, the Company expensed $313,000 (2011 - $31,000) and $612,000 (2011 - $396,000), respectively of exploration and evaluation assets as they related to pre-license exploration and evaluation costs.

On May 27, 2011, the Company entered into an agreement with respect to the Trent & Tyne field whereby the Company agreed to a cost-capped work commitment of $33,886,000 (£21,200,000) resulting in Iona earning a 20% non-operated working interest in the field. Upon completion of the work commitment, Iona shall assume its share of related Trent & Tyne field decommissioning liabilities. The Company is entitled to net production revenue from the effective date of September 1, 2010. The net production revenues were held in trust until May 1, 2012, when the Company increased the amount held in the trust account to £20 million (CDN$31,995,000) for the work commitment on drilling the T5z sidetrack well. Operations commenced on the T5z well (now named the T6 well) on August 13, 2012 and the Company has $19,458,000 (December 31, 2011 - $315,000) of net deferred costs as at September 30, 2012 which mainly relates to Trent & Tyne joint venture costs and the Company's share of the costs of the T6 well operations.

On January 19, 2012, the Company acquired full ownership and operatorship from Fairfield Cedrus Limited ("Fairfield") of a 100% interest in Block 3/8d containing the Kells Oil Field. The transaction was approved by the UK's Department of Energy and Climate Change ("DECC"). Iona reimbursed Fairfield on closing for USD$8.5 million in pre-development expenditures related to the Kells field. In addition, upon the approval by DECC of a field development plan in respect of Kells, Iona will be obligated to make a cash payment of USD$5.0 million to Fairfield and pay a net royalty of USD$2.50 per barrel of production from the Kells Oil Field.

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

4. Exploration and Evaluation Assets and Deferred Costs - Continued

On February 3, 2012, the Company entered into a sale and purchase agreement to acquire from Centrica Venture Production Company ("CVPC") a 58.73 % interest in Block 13/21a of the West Wick Oil Field.

Under the terms of the agreement Iona paid CVPC a holding deposit of USD$3.15 million on April 15, 2011 and on completion paid USD$5.0 million on September 13, 2012.

On July 9, 2012, the Company announced that its UK Subsidiary, Iona Energy Company (UK) Limited, completed the purchase of its partners' interests, MPX North Sea Limited ("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 Field Development Plan 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.

5. Share Capital

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 September 30, 2012 had the following Common shares, warrants and share options outstanding:

	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
	August 29, 2017	$0.38	150,000

On April 11, 2012, the Company announced the closing of a $92 million equity financing. A total of 184,000,000 common shares were sold, which includes shares issued on the exercise in full of a 15 per-cent over-allotment option granted to the agents retained by the Company for purposes of the offering. The sale price of each share sold in connection with the offering was $0.50. Also, on the May 4, 2012 44,400 shares were issued at $0.22 pursuant to exercise of warrants. These share issues increased the share capital of 140,860,568 Common Shares as at December 31, 2011 by 184,044,400 and decreased the 264,500 warrants as at December 31, 2011 to 220,100. The increase in share capital during the nine months to September 30, 2012, net of issue costs amounted to $86,064,000.

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

5. Share Capital - Continued

The Company also granted 17,070,000, 210,000 and 150,000 of share options to directors, officers, employees and consultants on April 13, 2012, June 18, 2012 and August 29, 2012 respectively. The options granted vest as follows: ¼ immediately and ¼ vesting on the first, second and third anniversary dates and expire five years from the date of issue. The fair value of the options was estimated using the Black Scholes option pricing model with the following assumptions:

	9 months ended September 30, 2012	
Fair value at grant date:		
Options granted on April 13, 2012	$	0.36
Options granted on June 18, 2012	$	0.30
Options granted on August 29, 2012	$	0.24
Exercise price:		
Options granted on April 13, 2012	$	0.57
Options granted on June 18, 2012	$	0.47
Options granted on August 29, 2012	$	0.38
Expected volatility		75%
Risk-free rate		2.05%
Expected life		5 years

An estimated forfeiture rate of 5% is used when recording share based payments. The volatility was determined via a peer comparison due to the Company's limited trading history.

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6. Segment Information

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

	Nine Month Period Ended September 30, 2012			
	United Kingdom	**United States**	**Corporate**	**Total**
Depreciation	(20)	-	-	**(20)**
Expenses before finance income	(3,368)	-	(2,926)	**(6,294)**
Net finance income	68	-	71	**139**
Net loss	(3,300)	-	(2,855)	**(6,155)**
	As at September 30, 2012			
Total assets	150,299	905	28,073	**179,277**
Total liabilities	31,090	-	181	**31,271**

	Three Month Period Ended September 30, 2012			
	United Kingdom	**United States**	**Corporate**	**Total**
Depreciation	**(7)**	**-**	**-**	**(7)**
Expenses before finance expense	**(1,497)**	**-**	**(817)**	**(2,314)**
Net finance income	**41**	**-**	**26**	**67**
Net loss	**(1,456)**	**-**	**(791)**	**(2,247)**

	Nine Month Period Ended September 30, 2011			
	United Kingdom	United States	Corporate	Total
Depreciation	(6)	-	-	(6)
Expenses before finance expense	(731)	-	(3,313)	(4,044)
Net finance income	3	-	15	18
Net loss	(728)	-	(3,298)	(4,026)

	Three Month Period Ended September 30, 2011			
	United Kingdom	United States	Corporate	Total
Depreciation	(5)	-	-	(5)
Expenses before finance expense	(38)	-	(580)	(618)
Net finance income	1	-	10	11
Net loss	(37)	-	(570)	(607)

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

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

7. Related Party Transactions

During the three and nine months ended September 30, 2012, the Company was charged $24,000 (2011 - $15,000) and $351,000 respectively (2011 - $454,000), 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, of which $31,000 is included in accounts payable and accrued liabilities as at September 30, 2012 (December 31, 2011 - $190,000).

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties.

8. Commitments and Contingencies

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

	Payments Due in Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
U.S. Segment					
Exploration leases	**240**	14	37	58	131
UK Segment					
Office lease	**258**	94	164	-	-
Property Payments	**47,293**	47,293	-	-	-
Decommissioning obligations	**6,862**	-	-	-	6,862
Drilling, completion, facility construction	**27,275**	27,275	-	-	-
Total UK Segment	**81,688**	74,662	164	-	6,862
Corporate Segment					
Office lease	**12**	12	-	-	-
Total Contractual Obligations	**81,940**	74,688	201	58	6,993

9. Subsequent Events

In the third quarter of 2012, Iona engaged TD Securities in London to market and manage a joint venture offering of working interests in both Orlando and Kells. An offering memorandum was prepared by the agents and Iona and marketed globally to a select list of potential partners. The final bid submission date was October 22, 2012 and Iona has received multiple bids. A review of the bids was undertaken by Iona to narrow the field of possible partners to be able to initiate meaningful negotiations. Iona expects to enter into binding legal agreements prior to year-end.

10. Capital Risk Management

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, reserve based lending, and other alternative forms of debt financing. 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 (note 5) and on April 5, 2012, final credit approval was received for a USD$130 million secured reserve based credit facility. This facility is subject to final documentation and conditions precedent, which are currently being negotiated.

The Company has commitments due in the next 12 months of approximately $74.7 million. This includes $47.3 million that is due to be paid in relation to the recent acquisition of the additional 65% interest in the Orlando licence; capital expenditure on the Kells and Orlando developments and its drilling obligations on the T&T interests. In order to meet these commitments the Company will need to raise additional financing or successfully close on the joint venture sale process currently underway (Note 9).

Iona has provided continual updates on operational and partnering progress on the Orlando and Kells developments to prospective lenders of its previously announced $130 million Credit Facility and believes it will be able to successfully enter into an expanded credit facility with initial capital available for drawdown upon the approval of the Orlando FDP.

CORPORATE INFORMATION

DIRECTORS

Neill A. Carson [3][5]
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Brad Gunn [4]
Calgary, Alberta

Donald Copeland [1][2][3]
Calgary, Alberta

Roger Laing [2][4]
Calgary, Alberta

Rod Maxwell [1][3]
Calgary, Alberta

Jay Zammit [1][2][4]
Calgary, Alberta

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

OFFICERS

Neill A. Carson
President and Chief Executive Officer

Brad Gunn
Chief Financial Officer

Alan Curran[5]
Chief Operating Officer

Peter F. Campbell[5]
Manager, Commercial Infrastructure

Colin Tannock
Chief of Subsurface

Dave Sherrard
VP Development

Robin Baxter
VP Business Development

Graham A. Heath
VP Corporate Development

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