Iona Energy Inc.
Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of Iona Energy Inc. ("Iona" or "the Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the consolidated financial statements and accompanying notes of the Company as at and for the year ended December 31, 2012, the Annual Information Form ("AIF") for the year ended December 31, 2012, the MD&A for the year ended December 31, 2011 and the audited consolidated financial statements as at and 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 April 29, 2013. 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", 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 courses 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 in 2012 through its 100% wholly owned United Kingdom subsidiary Iona Energy Company (UK) Limited ("IEUKL") in the United Kingdom's Continental Shelf ("UKCS").

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

Key Projects Update

Orlando – A proven undeveloped oil discovery

On November 2, 2011, MPX North Sea Limited ("MPX") as operator commenced drilling well 3/3b-13 (the "Well") on the Company's Orlando property and on March 30, 2012, the Company announced that the drilling was successful and that the oil bearing interval within the Upper Ness exceeded management expectations. During April 2012, a side-tracking operation of the Orlando well was carried out in order to acquire additional reservoir data and fluid samples. 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, IEUKL 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, payment of GBP29.3 million (CAD$47.4 million) million became payable on December 30, 2012 and was paid in Q1 2013. 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 an 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 CNR 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; and
- Delay in the expected arrival of the Ocean Nomad semi-submersible drilling rig to drill the development well at Kells.

A re-engineered Orlando FDP was submitted to DECC at the end of October 2012 and FDP approval was given on April 16, 2013. During 2012, the Company also secured two subsea wellheads (“Trees”) and additional subsea equipment and services to advance the Orlando development, including completion of 11 kilometres of line pipe.

In February 2013, Iona completed the sale of a 25% working interest in its UK North Sea Orlando and Kells fields to Volantis Exploration for total gross proceeds of USD$34 million on close and a pro-rata share of future staged payment obligations.

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

In November 2011, the Company signed a Sale and Purchase Agreement with Fairfield Cedrus Limited (“Fairfield”) for the 100% ownership and operatorship in U.K. Block 3/8d containing the Kells oil field. On January 19, 2012, the Company completed the acquisition, obtaining full approval from DECC. Under the terms of the Sale and Purchase Agreement, Iona reimbursed Fairfield on closing for USD$8,500,000 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.

As previously announced, the Kells oil and gas FDP has been submitted to DECC. Engineering work is ongoing for the Ninian Central Platform Kells production entry point and processing stream. Iona has secured two subsea Trees for Kells.

Sale of 25% interest in the Orlando and Kells fields

On December 13, 2012, the Company announced that IEUKL had entered into a definitive agreement for the sale of a 25% non-operated working interest in each of its 100% owned Orlando and Kells fields. The sale to Volantis Exploration Limited completed on February 21, 2013 for total gross proceeds of USD$34 million on close and a pro-rata share of future staged payment obligations; USD$1.25 million upon Kells FDP approval; and staged payments commencing six months after first production from Orlando of USD$1.8 million, USD$1.8 million, USD$1.8 million, USD$0.925 million, and USD$0.925 million made every six months thereafter.

Trent & Tyne gas production

On August 13, 2012, the Ensco 80 jack-up rig commenced drilling operations on the T5-z well (renamed T6) and, on January 14, 2013, the well was completed as a production well and it was successfully flow tested at an average rate of 25 million standard cubic feet per day ("MMscf/d") with a peak rate of 28 MMscf/d during an 8 hour production test.

As agreed, in the sale and purchase agreement between Iona UK and Perenco for the Trent and Tyne fields, Iona's net cost exposure for the T6 well was capped at £21.2 million (approximately USD$32.5 million).

Iona owns a 20% non-operated working interest in both the Trent & Tyne gas fields with an option to increase interest in both fields to 37.5%.

Trent and Tyne average production rate over the first 6 months of 2012 was 2.4 MMscf/d. Following the annual shutdown, the average monthly rate reached 2.8 MMscf/d. The average yearly rate was 1.9 MMscf/d, mainly due to the production outage for the annual shutdown. The average realized gas price for the year was strong at $9.05/mcf.

West Wick – Oil Discovery

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.

Iona intends to finalize the preferred development concept for West Wick within the next few months and integrate the West Wick project schedule into its plans for the ongoing development work at Iona's Orlando and Kells oil fields. Iona will upgrade the draft FDP engineered and designed in 2007 by CVPC with the final development concept and aims to move swiftly to place engineering contracts and identify critical long-lead items for procurement.

27th UK Licence Round

The Company's portfolio of assets will continue to grow through acquisitions, farm-ins and participation in license rounds. On October 25, 2012, DECC awarded IEUKL three UK North Sea Blocks at 100% working interest, including two oil discoveries. The three awarded Blocks, 3/7c (part), 3/8c, and 3/12 (part), are located in the Northern North Sea, to the south-west of the Ninian field and immediately adjacent to IEUKL's 100% Block 3/8d which includes the to-be-developed "Kells" oil and gas field and the "Ossian" oil discovery. In keeping with the Company's development focus, these newly awarded Blocks contain two adjacent undeveloped oil discoveries referred to by Iona as "Ronan" and "Oran". The Ossian, Ronan and Oran discoveries are in close proximity to each other (within 8 km), and as only oil columns (no water legs) have been encountered, Iona is of the view that a joint development is possible based upon Iona's current internal estimates of oil volumes and further appraisal is likely to increase oil volumes significantly of the properties. These discoveries, together with the pending Kells development, have the potential to create a synergistic Iona operated 'South of Ninian' development Hub.

Corporate Transactions

Carrizo UK Huntington Limited

On December 28, 2012, the Company announced that, its subsidiary IEUKL had entered into a definitive Sale and Purchase Agreement with Carrizo Oil & Gas, Inc. ("Carrizo") to acquire the entire share capital of its wholly owned subsidiary, Carrizo UK Huntington Ltd ("Carrizo UK"), including its interest in License P1114 of UK North Sea Block 22/14b including the near-producing Huntington oil field development ("Huntington"). Under the terms of the agreement, IEUKL paid to Carrizo a USD$6 million non-refundable deposit upon signing the Sale and Purchase Agreement.

The deal completed on February 22, 2013 and IEUKL paid a cash consideration of USD$174.9 million. A deferred payment of USD$18 million will also be paid to Carrizo from first producing field revenues being received from the Huntington field. Included in the sale and purchase are:

- A 15% non-operated working interest in the Huntington oil field;
- Royalties equivalent to 2.55% of total gross oil and gas production from the Huntington Joint Venture Partners (the "Royalties");
- A 100% interest in that part of the yet-to-be licensed 27th License Round award covering Block 22/14d that contains the 3D seismically mapped extension of the Jurassic discovery which underlies Huntington; and
- Carrizo UK's ring-fenced tax losses totaling USD$111 million as at the transaction effective date of July 1st, 2012.

The Company was informed by E.ON Ruhrgas, the operator of the Huntington Field that the field commenced production on April 12, 2013. The field has been developed through four production and two water-injection wells and is tied back to Teekay's Floating Production Storage and Offloading ("FPSO") vessel, the Voyager Spirit, with production capacity of 30,000 barrels of oil per day and 27 million standard cubit feet of gas per day. Iona subsequently renamed Carrizo UK as "Iona UK Huntington Ltd".

Highlights Subsequent to the Year End

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

On February 21, 2013, the Company announced that:

- The Company has closed its previously announced bought-deal private placement of 41,818,600 common shares (the "Offering") at a price of $0.55 per share. An aggregate gross amount of CAD$23 million was raised pursuant to the Offering. Casimir Capital Ltd. ("Casimir") acted as lead underwriter with National Bank Financial as a syndicate member;
- Iona received USD$60 million on completion of a structured energy derivative transaction with Britannic Trading Ltd. a subsidiary of BP International Limited for notional quantities of 1,360,072 and 6,746,231 barrels of Brent blend crude oil over the period April 1, 2013 to March 31, 2014 and April 1, 2014 to March 31, 2018 and strike prices of USD$100 and USD$95, respectively;
- The Company has also entered into a Marketing and Off-take Agreement with BP Oil International Limited to sell its entire future crude oil produced from the Orlando and Kells fields; and
- Iona sold a 25% working interest in its UK North Sea Orlando and Kells fields to an industry participant for total gross proceeds of USD$34 million on close and pro-rata share of future staged payment obligations.

On February 22, 2013, the Company announced the closing of its previously announced Senior Secured Borrowing Base Facility for up to USD$250 million of which USD$150 million is currently available with the Bank of America Merrill Lynch, Lloyds TSB Bank plc and BNP Paribas and entered into hedging contracts with these banks for a total of 1,330,791 barrels of oil over the period April 1, 2013 to March 31, 2014 at a strike price of USD$100.

Also on February 22, 2013, the Company announced the closing of its acquisition of Carrizo UK. The acquisition of Carrizo UK consisted of:

- A 15% non-operated working interest in License P1114 of UK North Sea Block 22/14b covering the near-producing Huntington oil field development ("Huntington");
- Royalties equivalent to 2.55% of total gross oil and gas production payable to Carrizo UK from the other Huntington Joint Venture Partners;
- A 100% interest in that part of Block 22/14d that contains the 3D seismically mapped extension of the Jurassic discovery which underlies Huntington; and
- Carrizo UK's ring-fenced tax losses totaling approximately USD$125 million as at the transaction effective date of July 1st, 2012.

On March 5, 2013, the Company announced that pursuant to the terms of its stock option plan, its Board of Directors had approved the granting of options to purchase an aggregate of 7,420,000 common shares at a price of $0.63 per share, of which, 5,970,000 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.

On April 5, 2013, the Company announced that Brad Gunn, Chief Financial Officer ("CFO") resigned as CFO and director for personal reasons and Graham Heath, Iona's VP Corporate Development, has assumed the position of interim CFO until the Company finds a suitable replacement. Also, Don Copeland, a member of the Company's Board of Directors, has been appointed as the non-executive chairman of the Board of Directors.

General and Administrative Expenditure

($ thousands)	Three months ended December 31,		Twelve months ended December 31,	
General and administrative	**2012**	2011	**2012**	2011
Consulting fees / wages	**277**	285	**1,391**	1,061
Professional fees	**1,108**	118	**1,677**	665
Stock option expense	**1,281**	325	**4,504**	1,679
Bank charges	**14**	1	**68**	5
Travel, office costs and other	**543**	315	**1,131**	865
Financing Bank Fees	**1,477**	-	**1,477**	-
NLAC acquisition charge	**-**	-	**-**	525
Total	**4,700**	1,044	**10,248**	4,800

General and administrative costs for the three months and 12 months ended December 31, 2012 have increased from the comparative period of 2011 mainly as a result of the growth and increased operations of the company, corporate transactions and the stock option expense increasing due to further options granted in 2012. Costs are expected to continue to increase as the Company continues to grow. Also, a one-time charge was incurred in relation to the amalgamation with Northern Lights Acquisition Corp. during the nine month period ended September 30, 2011.

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 (other than options granted to a firm providing investor relations activities) vest as follows: ¼ immediately and ¼ vesting on the first, second and third anniversary dates. All unvested options vest upon the change of control of the Company. The options are non-transferable. The minimum exercise price is based on trading price of the Company's common shares on the date prior to the day of the grant less any applicable discount permitted by the TSX Venture Exchange. The future expense will vary as it is dependent on the number and vesting provisions of future stock option grants.

Related Party Transactions

During the year ended December 31, 2012, the Company was charged $391,000 (2011 - $373,000), respectively 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 $70,000 (2011 - $190,000) is included in accounts payable and accrued liabilities as at December 2012.

Included in accounts receivable is $265,013 (2011 - $Nil) due from an officer and director of the Company who resigned from the Company's management team and Board subsequent to December 31, 2012. Of this amount $117,366 remains to be collected as at April 29, 2013. The amounts owing are non-interest bearing and secured. The Company expects full repayment of the remaining balances.

Except as disclosed, 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 and approximates fair value.

Exploration and Evaluation

During the three month and 12 month periods ended December 31, 2012, $54,591,000 and $105,698,000 of exploration and evaluation assets were capitalized respectively. Details of the Company's properties have previously been discussed under the heading Key Projects Update. Costs of $15,973,000 were capitalized during the 12 month period ended December 21, 2012 in relation to the drilling of the Orlando well. These costs were incurred in Q1 and Q2 and a final reconciliation of the wells costs resulted in a reduction of $1,147,000 to the overall wells costs in the three month period ended December 31, 2012. In addition, $61,016,000 of property payments were capitalized during the year ended December 31, 2012 as a result of the completion of the Kells acquisition in Q1 2012, the completion of the West Wick acquisition in Q3 2012 and $47.4 million was capitalized in relation to the purchase of MPX and Sorgenia's interests in Orlando. The deferred consideration became payable on December 30, 2012 and was settled in Q1 2013. Also, $8,062,000 and $28,695,000 of general exploration and evaluation expenditure was across the assets mainly due to engineering work and long lead items on Kells and Orlando during the three month period and year ended December 21, 2012 respectively.

As at December 31, 2012 and as of the date of this MD&A, no costs are considered to be impaired, however, the assets have not yet determined to be technically feasible and commercially viable.

The Company's exploration and evaluation expense in the income statement represents all pre-license costs and the capitalized costs from exploration and evaluation assets that have been expensed. These costs represent unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore. The costs included in exploration and evaluation expense include pre-license costs and licence relinquishments. During the year ended December 31, 2012, $355,000 (2011 - $348,000) of pre-license costs was incurred. Also, following completion of geotechnical evaluation activity, the company relinquished the Solway Firth license and therefore the carrying value of the license of $197,000 was expensed in the year ended December 31, 2011.

Deferred Costs

During the three month and 12 month periods ended December 31, 2012, $18,652,000 and $37,702,000 of costs were capitalized as deferred costs. USD$6.0 million was capitalised in relation to the deposit for the purchase of Carrizo UK as the deal did not complete until February 2013 and the remaining additions to deferred costs related to the net production revenue and T6 drilling costs on the Trent and Tyne assets. The costs are held in deferred costs as the Trent and Tyne asset acquisition is not considered complete until the drilling of the T6 well is complete and the risk and rewards have passed to Iona. The T6 well was completed in January 2013.

Foreign exchange

During the three and 12 months ended December 31, 2012, the Company recognized foreign exchange losses of $13,000 and $152,000 respectively (2011 – gains of $134,000 and $241,000 for the respective three months and year end). The exchange losses in 2012 arose primarily as a result of the weakening of the US dollar decreasing 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 in future reporting periods.

Selected Annual Information

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

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

($ thousands, except per share amounts)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Total revenue	-	-	-
Net loss	10,571	5,076	786
Total assets	203,523	72,120	2,978
Total long-term financial liabilities	656	170	-
Loss per share – basic and diluted	0.04	0.04	0.05

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

Commitments

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

	December 31, 2012				
	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	**227**	17	48	71	91
UK Segment					
Office lease	**240**	96	144	-	-

Decommissioning obligations	**6,999**	-	-	-	6,999
Drilling, completion, facility construction	**8,262**	8,262	-	-	-
Total UK Segment	**15,501**	8,358	144	-	6,999
Corporate Segment					
Office lease	**12**	12	-	-	-
Total Contractual Obligations	**15,740**	8,387	192	71	7,090

The drilling, completion, facility and construction commitments relate to committed capital expenditure on the Kells and Orlando fields. The decommissioning obligation relates to the Trent and Tyne fields.

The aforementioned contractual obligations will be funded from the financing noted in *Highlights Subsequent to the Year end.*

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, 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 maintain the capital structure, the Company will from time to time issue shares and adjust its capital spending to manage current working capital levels. As at December 31, 2012, the Company has a working capital deficiency of $34,720,000 and capital commitments of $15,740,000. Subsequent to December 31, 2012 the Company entered into a USD$250 million Senior Secured Borrowing Base Facility ("BBF") of which there is USD$150 million currently available. The Company has drawn down $139,000,000 of the debt available under the facility. In addition, the Company closed a CDN$23 million private placement of common shares (see note 16). Although the cashflow generated from the BBF and private placement has assisted the Company to meet its liabilities and commitments, the Company is still working with its lenders and suppliers to manage its current working capital levels on the Orlando and Kells projects to ensure the Company meets its liquidity test under the Borrowing Base Facility.

At December 31, 2012, the Company was not subject to any externally imposed covenants.

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 Pounds sterling, Euros, United States dollars and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the year ended December 31, 2012, December 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 December 31, 2012 would have impacted the comprehensive loss of the Company for the three month period and year ended December 31, 2012 by approximately $169,000 (year ended December 31, 2011 – $316,000).

In addition, at December 31, 2012, the Company held approximately $55,990,000 (£33,991,000) (2011- $6,322,000 (£4,008,000)) of accounts payable and unearned revenue in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates at December 31, 2012 would impact the comprehensive loss of the Company for the three month period and year ended December 31, 2012 by approximately $550,000 (year ended December 31, 2011 - $63,000).

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 December 31, 2012 had 324,904,966 common shares, 220,100 warrants and 27,080,000 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			366,723,566
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
	January 10, 2018	$0.59	175,000
	March 5, 2018	$0.63	7,420,000

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 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 common shares were issued at $0.22 pursuant to exercise of agent warrants. These share issues increased the share capital of 140,860,566 common shares as at December 31, 2011 and March 31, 2012 by 184,044,400 to 324,904,966 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 year ended December 31, 2012, net of issue costs amounted to $86,064,000.

On February 21, 2013, 41,818,600 common shares were issued at $0.55 per share in a bought deal as disclosed in *Highlights Subsequent to the Year End*.

On April 13, 2012, June 18, 2012, August 29, 2012, January 10, 2013 and March 5, 2013 pursuant to the terms of its stock option plan, the Company's Board of Directors approved the granting of 17,070,000, 210,000, 150,000, 175,000 and 7,420,000 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, $0.47, $0.38, $0.59 and $0.63 respectively, for a term of five years (other than the 175,000 options granted to a firm providing investor relations activities) 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.

Summary of Quarterly Results

($ thousands, except per share amounts)	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Total revenue	-	-	-	-
Net loss	(4,416)	(2,247)	(2,883)	(1,025)
Comprehensive income/ (loss)	(1,826)	(3,182)	(2,594)	(408)
Net capital expenditures (including deferred costs)	72,746	29,427	16,932	23,948
Working capital surplus/ (deficit)	(34,720)	40,196	71,514	4,940
Total assets	203,097	179,277	167,321	75,969
Loss per share – basic and diluted	0.014	0.007	0.010	0.007

($ thousands, except per share amounts)	Three months ended December 31, 2011	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended March 31, 2011
Total revenue	-	-	-	-
Net loss	(1,050)	(607)	(2,694)	(725)
Comprehensive loss	(2,674)	1,892	(4,028)	(842)
Net capital expenditures (including deferred costs)	9,116	11,992	2,854	3,648
Working capital surplus	36,451	45,709	56,063	17,372
Total assets	72,120	69,450	66,320	68,652
Loss per share – basic and diluted	0.008	0.004	0.019	0.015

The net loss for the three months ended December 31, 2012, mainly increased due to bank finance fees being expensed in the quarter and also increased professional fees and consultant costs being incurred as a result corporate and financing activity. The increase in net loss during the quarters for the year ended December 31, 2012 in comparison to December 31, 2011 is as expected due to the continued growth and activity of the Company which has increased general and administration costs, share option costs and pre licence exploration and evaluation 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 and total assets 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, with the exception of Q2 2012, where the working capital surplus balance increased as a result of the equity raise during the year.

Critical Accounting Estimates

The Company's management made judgements, assumptions and estimates in the preparation of the financial statements. Actual results may differ from those estimates. The accounting policies applied by the Company in the condensed consolidated financial statements for the year ended December 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, 2012.

Accounting Policy Changes

There have been no significant changes in the year ended December 31, 2012 to the upcoming changes in accounting policies identified in the audited consolidated financials statements as at and for the year-ended December 31, 2012.

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 December 31, 2012 of $16,692,000 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 or 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.

During September 2012, the UK Government announced the Brown Field Allowance (“BFA”), which is a new tax relief to encourage investment in older oil and gas fields. The BFA will shield up to £250m of income in qualifying brown field projects, or £500m for projects in fields paying Petroleum Revenue Tax, from the 32% Supplementary Charge rate (providing tax relief of up to £80m or £160m respectively). The level of relief available to an individual project will depend on its size and unit costs. A qualifying project will be an incremental project increasing expected production from an offshore oil or gas field as described in a revised consent for development which is authorized by DECC on or after September 7, 2012, and has verified expected capital costs per tonne of incremental reserves in excess of £60. The maximum level of allowance will be £50/tonne and will be available to projects with verified expected capital costs of £80/tonne or above. The Company welcomes this announcement and hopes to utilize it on its qualifying projects in the future.

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.

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

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

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

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

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

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, 2012, 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.