Iona Energy Inc.
Condensed Consolidated Financial Statements - Unaudited
For the three and nine month periods ended September 30, 2013

Contents

Iona Energy Inc.
Condensed Consolidated Statements of Financial Position - Unaudited

(In thousands of Canadian dollars)	Notes	September 30, 2013	December 31, 2012
ASSETS			
Current Assets			
Cash and cash equivalents		**10,297**	15,500
Accounts receivable		**10,289**	3,214
Prepaid expenses		**926**	1,266
Restricted cash	**7**	**116,764**	706
Inventory	**8**	**2,389**	-
Total Current Assets		**140,665**	20,686
Restricted cash	**7**	**7,140**	9,052
Deferred costs	**10**	**-**	38,356
Exploration and evaluation assets	**10**	**130,693**	135,358
Property and equipment	**11**	**333,301**	71
Goodwill	**3**	**15,750**	-
Derivative instruments	**17**	**4,141**	-
Total Non-Current Assets		**491,025**	182,837
Total Assets		**631,690**	203,523
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	**7**	**20,916**	55,406
Other payables	**7**	**34,455**	-
Derivative instruments	**17**	**14,047**	-
Interest bearing loans and borrowings, current	**12**	**-**	-
Total Current Liabilities		**69,418**	55,406
Non-Current Liabilities			
Decommissioning liabilities	**13**	**13,658**	656
Secured bonds	**12**	**266,875**	-
Deferred tax liabilities	**6**	**82,484**	-
Derivative liabilities	**17**	**28,403**	-
Total Non-Current Liabilities		**391,420**	656
Total Liabilities		**460,838**	56,062
Shareholders' Equity			
Share capital	**14**	**177,367**	155,985
Contributed surplus		**9,215**	6,183
Accumulated other comprehensive income		**2,900**	1,985
Deficit		**(18,630)**	(16,692)
Total Shareholders' Equity		**170,852**	147,461
Total Liabilities and Shareholders' Equity		**631,690**	203,523

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

Iona Energy Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income / (Loss) - Unaudited

(In thousands of Canadian dollars, except for per share and share amounts)	Notes	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Revenue	4	**18,786**	-	**32,701**	-
Cost of sales, including DD&A	5	**(16,578)**	-	**(28,586)**	-
Gross Profit		2,208	-	4,115	
Expenses					
General and administrative		**(2,217)**	(1,834)	**(8,799)**	(5,548)
Exploration and evaluation	10	**(5)**	(313)	**(791)**	(612)
Transaction acquisition costs		**(6)**	-	**(968)**	-
Gain on acquisition	3	**-**	-	**6,426**	-
Total Expenses		**(2,228)**	(2,147)	**(4,132)**	(6,160)
Income (loss) before other expenses		**(20)**	(2,147)	**(17)**	(6,160)
(Loss) / gain on financial instruments		**(9,192)**	-	**(19,170)**	-
Other finance costs		**(4,373)**	-	**(8,232)**	-
Finance income		**19**	69	**30**	145
Foreign exchange gain / (loss)		**(428)**	(169)	**448**	(140)
Loss before tax		**(13,994)**	(2,247)	**(26,941)**	(6,155)
Income tax recovery (expense)	6	**14,928**	-	**25,003**	-
Net income / (loss)		**934**	(2,247)	**(1,938)**	(6,155)
Unrealized foreign exchange (loss) / gain on net investments		**6,828**	(945)	**6,040**	(5)
Exchange differences (loss) / gain on re-translation of foreign operations		**(5,353)**	10	**(5,125)**	(24)
Comprehensive Income (loss) for the period		**2,409**	(3,182)	**(1,023)**	(6,184)
Net (loss) / income per share - basic and diluted		$ **0.003**	(0.007)	$ **(0.005)**	(0.024)
Weighted average shares outstanding - basic and diluted		**366,824,344**	324,904,968	**358,688,767**	256,388,360

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

(In thousands of Canadian dollars)	Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Equity
Balance December 31, 2012	155,985	6,183	1,985	(16,692)	147,461
Net loss for the period	-	-	-	(1,938)	(1,938)
Stock based payments	-	3,032	-	-	3,032
Foreign currency translation	-	-	(5,125)	-	(5,125)
Unrealized foreign exchange (loss) / gain on net investments	-	-	6,040	-	6,040
Issue of shares (net of issue costs)	21,382	-	-	-	21,382
Balance September 30, 2013	177,367	9,215	2,900	(18,630)	170,852

(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

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

Iona Energy Inc.
Condensed Consolidated Statements of Cash Flows – Unaudited

(In thousands of Canadian dollars)	Notes	**Nine Months Ended September 30 2013**	Nine Months Ended September 30 2012
Cash flows from/(used in) operating activities			
Net loss for the period		**(1,938)**	(6,155)
Items not involving cash:			
Depletion, depreciation and amortization		**20,906**	20
Decommissioning accretion		**188**	6
Gain on acquisition	3	**(6,426)**	-
Unrealized loss on fair value of derivative instruments	17	**4,957**	-
Taxation – recovery		**(25,003)**	-
Share based payments		**3,032**	3,223
Finance costs		**8,232**	
		3,948	(2,906)
Changes in non-cash working capital balances:			
Accounts receivable		**(10,491)**	(750)
Prepaid expenses		**81**	68
Accounts payable and accrued liabilities		**373**	7
Cash flow used in operating activities		**(6,089)**	(3,581)
Cash flows from/(used in) financing activities			
Issue of common shares, net of issue costs		**21,337**	85,932
Derivative call options sold	17	**61,344**	-
Bank loan draw down, net of costs	12	**141,964**	-
Repayment of credit facility	12	**(149,558)**	-
Proceeds from issuance of bond, net of costs	12	**266,875**	-
Repayment of subsidiary loans and derivatives		**(57,141)**	-
Interest on credit facility		**(4,088)**	
Cash flow from financing activities		**280,733**	85,932
Cash flows from/(used in) investing activities			
Expenditures on property and equipment		**(4,342)**	(61)
Expenditures on exploration and evaluation		**(12,478)**	(27,680)
Expenditure on acquisition of Orlando interest	10	**(46,809)**	-
Purchase of Huntington oil field	3	**(140,544)**	-
Proceeds from disposal of exploration and evaluation assets	10	**37,692**	-
Restricted cash		**(114,146)**	(39,387)
Deferred costs		**-**	(19,143)
Cash flow used in investing activities		**(280,627)**	(86,271)
Effect of exchange rate changes on cash		**780**	218
Increase/(decrease) in cash		**(5,203)**	(3,702)
Cash, beginning of period		**15,500**	41,608
Cash, end of period		**10,297**	37,906

Supplemental information			
Interest paid		**$ 3,813**	$ -
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, 2013.

Basis of preparation
Except as noted below, the condensed consolidated financial statements have been prepared using the same accounting policies and methods, including significant judgments and estimates as those disclosed the consolidated financial statements for the year ended December 31, 2012. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012.

Changes in accounting policies
Effective January 1, 2013, the Company adopted IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements, IFRS 12 "Disclosure of Interests in Other Entities", and the amendments to IAS 28 "Investments in Associates and Joint Ventures."

There were no changes to the consolidated financial statements or the consolidation process as a result of adoption of IFRS 10. IFRS 11 classifies interests in joint arrangements as joint ventures or joint operations depending on the rights and obligations of the parties in the arrangement. The Company performed a review of interests in joint arrangements and concluded that shared wells operate as joint operations and accordingly there is no change in the accounting for these assets as a result of adoption of this standard. As a result, there were no changes as a result of the adoption of IFRS 12 as well. Furthermore the Company was also required to adopt IFRS 13 "Fair Value Measurements," amendments to IAS 1 "Presentation of Financial Statements," amendments to IFRS 7 "Financial Instruments: Disclosures." There were no material changes as a result of the adoption of these standards.

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

3. Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition. Acquisition costs incurred are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Company's share of the net assets required, the difference is recognized directly in the statement of income.

During the first quarter of 2013 Iona completed two business combinations.

a) Acquisition of Trent & Tyne Assets

Consideration transferred on acquisition (1)	$ 33,811

(1) Amounts were previously included in deferred costs

On November 8, 2010, Iona, through its subsidiary, Iona Energy Company (UK) Limited ("Iona UK") entered into a sale and purchase agreement with Perenco for a 20% interest in Trent Field Block 43/24 Licence P.685, a 20% interest in Tyne Field Block 44/18 Licence P.609, together with certain assets and facilities relating thereto, as well as a right of first refusal to certain assets, in exchange for Iona agreeing to fund a work program, on the T6 well for an aggregate amount of up to £21.2 million. On January 14, 2013, the T6 well was completed. As a result the Company obtained control of its 20% interest and therefore has concluded that this transaction represents a business combination with an acquisition date of January 14, 2013. The Company began consolidating the operating results, cash flows and net assets of Trent & Tyne from January 14, 2013. The revenues and cost of sales as disclosed in Note 4 relates to the Huntington and the Trent & Tyne assets. The net loss amounts have not been disclosed separately as it is impracticable to do so as the operations were consolidated beginning on the acquisition date.

The fair value allocation of which is detailed in the following table is preliminary in nature and will be reviewed in accordance with the provisions of IFRS 3– Business Combinations within the specified 12 month period from completion date. Due to the inherently uncertain nature of the oil and gas industry, the assumptions underlying the preliminary assigned values are judgmental in nature. The fair value of the identifiable assets and liabilities of Trent & Tyne exceeded the consideration transferred and a gain on acquisition has been recognized and recorded in the statement of operations. The gain on acquisition is a result of an increase in the fair value of the acquired reserves of Trent & Tyne from the time when the sale and purchase agreement was negotiated to the acquisition date.

Total Costs to Allocate	
Consideration transferred	33,811
Allocation of Fair Values to Iona's Assets	
Property, plant and equipment	56,306
Total assets	56,306
Deferred income tax liabilities	10,300
Decommissioning liabilities	5,769
Total liabilities	16,069
Net assets acquired	40,237
Gain on acquisition	(6,426)
	33,811

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

3. Business Combinations - continued

b) Acquisition of Huntington Oil Field

Consideration transferred:	
Cash paid on acquisition	121,618
Deposits paid [1]	6,134
Deferred consideration paid subsequent	18,926
	146,678

[1] Amounts were previously included in deferred costs

Iona, through its wholly-owned UK subsidiary, Iona UK completed the acquisition of 100% of the issued and outstanding shares of Carrizo UK Huntington Limited ("Carrizo UK"). The Transaction was completed by way of a sale and purchase agreement dated December 27, 2012 among Iona, Iona UK and Carrizo Oil & Gas Inc. ("Carrizo Oil"), pursuant to which Iona UK purchased all of the Huntington Shares from Carrizo Oil. The Transaction was completed on February 22, 2013. The acquisition consisted of a 15% non-operated working interest in License P1114 of UK North Sea Block 22/14b covering the Huntington oil field ("Huntington"), royalties equivalent to 2.55% of total gross oil and gas production payable to Carrizo UK from the other Huntington Joint Venture Partners and a 100% interest in that part of Block 22/14d that contains the 3D seismically mapped extension of the Jurassic discovery. Under the terms of the sale and purchase agreement, total consideration transferred as of the acquisition date on February 22, 2013 by Iona UK to Carrizo Oil was $146,678,000, including an additional deferred payment of $18,926,000 which was due and payable to Carrizo Oil upon receipt of first oil revenues from the Huntington field. Also on closing Iona UK repaid Carrizo UK's debt and deferred hedging premiums at the completion date, which was $57,141,000.

The Company has determined that this transaction represents a business combination with Iona identified as the acquirer. The Company began consolidating the operating results, cash flows and net assets of Carrizo UK from February 22, 2013. These amounts have not been disclosed separately as it is impracticable to do so as the operations were consolidated beginning on the acquisition date.

The following table, showing the purchase price allocation, is preliminary in nature and will be reviewed in accordance with the provisions of IFRS 3 – Business Combinations within the specified 12 month period from completion date. Due to the inherently uncertain nature of the oil and gas industry, the assumptions underlying the preliminary assigned values are judgmental in nature. The estimated fair value currently allocated to property and equipment is based on pre-tax net present value of future revenue from the proved and probable reserve values, discounted at a rate of 25%, and derived from an independent reserve report effective as of December 31, 2012, prepared by Gaffney, Cline & Associates Ltd. on Iona's interest in the Huntington Field.

Carrizo UK was a private company with interests in the Huntington field located in the United Kingdom continental shelf. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

3. Business Combinations - continued

Total Costs to Allocate	
Consideration transferred	146,678
Allocation of Fair Values	
Current assets	180
Exploration and evaluation assets	15,000
Property and equipment	280,454
Total assets	295,634
Current liabilities	7,759
Borrowings and financial liabilities	57,141
Decommissioning liabilities	7,002
Deferred tax liabilities	91,400
Total liabilities	163,302
Net assets acquired	132,332
Goodwill	14,346
	146,678

As Iona UK's functional currency is GBP, the above assets are translated upon consolidation into the Company's reporting currency, Canadian dollars, at each reporting period.

4. Revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	**2013**	2012
Oil sales	**14,836**	-	**23,667**	-
Gas sales	**3,016**	-	**7,996**	-
Condensate sales	**934**	-	**1,038**	-
	18,786	-	**32,701**	-

The Company recognizes revenue when the title transfers to the customer as the commodity is loaded on to vessels for shipping and is based on volumes delivered to customers at contractual delivery points and rates.

5. Cost of sales

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	**2013**	2012
Operating expenses	**(3,563)**	-	**(10,069)**	-
Depletion,depreciation and amortization	**(15,404)**	-	**(20,906)**	-
Movement in inventory	**2,389**	-	**2,389**	-
	(16,578)	-	**(28,586)**	-

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

6. Taxation

Tax credited / (charged) through the consolidated statement of operations and comprehensive loss:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	**2013**	2012
Income tax expense (recovery)	**(14,928)**	-	**(25,003)**	-

Deferred tax liabilities in statement of financial position:

	Nine Months Ended September 30	
	2013	2012
Deferred taxation liabilities arising on acquisition fair values	**101,700**	-
Exchange movement	**5,787**	-
Taxation – recovery	**(25,003)**	-
	82,484	-

7. Restricted Cash

Current

As of September 30, 2013, the Company had $116,764,000 of restricted cash (December 31, 2012 - $706,000). Of the current restricted cash $114,704,000 relates to bond proceeds. The bond proceeds can be utilized to retire tranches of call options sold to Britannic Trading Limited and capital expenditure on the development of Orlando and Kells. Upon confirmation that both Orlando and Kells have reached first oil any remaining funds will become unrestricted.

As per the terms of the Bond Agreement, $17,314,000 of the $20,916,000 in accounts payable and $34,455,000 of other payables can be paid out of restricted cash.

Non-Current

At September 30, 2013 and December 31, 2012, the Company had $52,000 of cash held as deposits for work commitment guarantees contained in exploration contracts in Alaska in the United States.

At September 30, 2013, the Company had $7,088,000 of restricted cash (December 31, 2012 - $6,893,000) held for the Company’s decommissioning liabilities on the Trent & Tyne properties, $nil (December 31, 2012 – $2,002,000) held for the completion of long lead items, and $nil (December 31, 2012 - $105,000) held as security against Company credit cards.

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

8. Inventory

	Sept 30 2013	Dec 31 2012
Crude oil inventory	**2,389**	-

Inventories of crude oil are valued at the lower of cost, using the average cost method, and net realizable value. Costs include direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

9. 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, 2013			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	32,701	-	-	**32,701**
Cost of sales	(28,586)	-	-	**(28,586)**
Gross Profit	4,115	-	-	**4,115**
Other expenses, gain on acquisition, net finance costs	(26,598)	-	(4,458)	**(31,056)**
Taxation - recovery	25,003	-	-	**25,003**
Net income (loss)	2,520	-	(4,458)	**(1,938)**
	As at September 30, 2013			
Total assets	627,245	964	3,481	**631,690**
Total liabilities	459,991	-	847	**460,838**

	Three Month Period Ended September 30, 2013			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	18,786	-	-	**18,786**
Cost of sales	(16,578)	-	-	**(16,578)**
Gross Profit	2,208	-	-	**2,208**
Net finance costs/other expenses	(15,109)	-	(1,093)	**(16,202)**
Taxation - recovery	14,928	-	-	**14,928**
Net income (loss)	2,027	-	(1,093)	**934**

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

9. Segment Information - continued

	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)

10. Exploration and Evaluation Assets and Deferred Costs

	General E&E	Property Payments and Disposals	Drilling Costs	Total - United Kingdom Segment	United States Segment	Total – E&E	Deferred Costs
Balance, December 31, 2012	34,956	67,360	32,115	134,431	927	135,358	38,356
Additions	18,971	1,151	(3,601)	16,521	-	16,521	-
Acquisition (Note 3)	15,000	-	-	15,000	-	15,000	-
Transfers to property and plant	(299)	-	-	(299)	- -	(299)	(38,356)
Disposals		(37,692)	-	(37,692)	-	(37,692)	-
Effect of changes in exchange rates	467	900	429	1,796	9	1,805	-
Balance September 30, 2013	**69,095**	**31,719**	**28,943**	**129,757**	**936**	**130,693**	**-**

The Company's exploration and evaluation assets consist of costs pertaining to Alaska and the United Kingdom.

General E&E

During the three months and nine months ended September 30, 2013, the Company expensed $5,000 (2012 - $313,000) and $791,000 (2012 - $612,000), respectively of exploration and evaluation costs. The additions to general E&E mainly relates to development expenditure on both the Orlando and Kells fields.

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

10. Exploration and Evaluation Assets and Deferred Costs - continued

Property payments and disposals

On July 9, 2012, the Iona UK 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, payment of £30.0 million (CAD$46.8 million) was made in Q1 2013. CAD$47.4 million was accrued as at December 31, 2012. 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.

On February 21, 2013, the Company 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 CAD$37.7 million on close and pro-rata share of future staged payment obligations.

Drilling costs

On July 22, 2013, Iona UK resolved disputed historic drilling costs and received a cash payment of CAD$3.6 million, which has been shown as a recovery.

Deferred Costs

Due to the business combinations as detailed in Note 3, the amounts held in deferred costs in relation to Carrizo UK and Trent & Tyne were transferred to property and equipment.

11. Property and Equipment

	Development & Production Oil and Gas assets	Other Fixed Assets	Total
Cost			
At December 31, 2012	-	107	107
Additions	4,342	42	4,384
Acquisitions (Note 3)	336,760	-	336,760
Exchange differences	13,023	5	13,028
At September 30, 2013	**354,125**	**154**	**354,279**
Depletion, depreciation and amortisation			
At December 31, 2012	-	36	36
Charge for the period	20,906	36	20,942
At September 30, 2013	**20,906**	**72**	**20,978**
Carrying value at December 31, 2012	-	71	71
Carrying value at September 30, 2013	**333,219**	**82**	**333,301**

12. Senior Debt Instruments

On September 27, 2013, Iona UK issued USD$275 million in senior secured bonds (the "Bonds") for USD$268 million, net of discounts of USD$7 million and transaction cost of USD$8.6 million. As at September 30, 2013 the fair value of the Bonds were USD$269 million. The bonds mature on September 30, 2018. The Bonds carry an annual coupon rate of 9.5% payable semi-annually, were issued at 97.5% of par and are callable in whole or in part at the option of Iona UK at any time. Commencing 30 months after September 30, 2013, the Bonds will be repaid at 15% of the face value every six months with a 25% final payment at maturity. The Bonds contain certain early redemption options under which the Company has the option to redeem all or a portion of the Bonds at various redemption prices, which include the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date. The Company reviewed the terms of the Bonds and determined that certain prepayment options were an embedded derivative. The fair value of the embedded derivative at September 30, 2013 was valued at USD$1.1 million and will be fair valued at each subsequent reporting period.

At September 30, 2013 the balance of the Bonds of CAD$266,875,000 represents the Bonds amortised cost of CAD$268,054,000 and the fair value of the embedded derivative of CAD$1,179,000 as detailed in the table below.

	USD$ 000	CAD$ 000
Issue USD$ 275 m at par	$275,000	$282,838
Discount	($6,875)	($7,071)
Issue at discount	$268,125	$275,767
Transaction costs	(8,646)	(8,892)
Per statements	259,479	266,875
Embedded deriviative	1,146	1,179
Bond amortized cost	260,625	268,054

On February 21, 2013, Iona UK entered into a USD$150 million Loan Facility with a group of three banks led by Bank of America Merrill Lynch, Lloyds TSB Bank, and BNP Paribas. As of the date hereof, the Loan Facility has been repaid in full and permanently closed. The Loan Facility would have matured on the earlier of: (i) the date which is five (5) years from the closing date; and (ii) the date on which the remaining oil and gas reserves (as determined by management) associated with the borrowing base assets fell below 25% of the initial oil and gas reserve quantities attributed to the borrowing base assets (being Iona UK's Huntington assets and T&T assets). Amounts drawn under the Loan Facility bore interest at a rate equal to the London Interbank Offered Rate plus a margin of 3.20% - 3.95% per annum plus an additional rate to compensate the lenders for certain compliance costs with UK or European regulatory requirements, if any. In conjunction with the Loan Facility, the Company provided a guarantee of Iona UK's obligations under the Loan Facility.

The Loan Facility was subject to redetermination on September 30, 2013 and, as a direct consequence of the Huntington field's later than anticipated start-up and the slower production ramp up to full capacity, the Company did not satisfy certain financial conditions in the terms of the Loan Facility regarding its short-term liquidity coverage requirements during the three and six months ending September 30, 2013. The lenders granted the Company two waivers to September 27, 2013 in relation to compliance with these conditions. The cost of obtaining the waivers was $4.5 million and is included in finance costs.

On September 27, 2013, upon closing of the Bonds, the Company repaid the Company's Loan Facility in full. The carrying amount on the date of the Bond closure was USD$145.4 million, inclusive of waivers.

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

12. Senior Debt Instruments - continued

Additionally, on September 27, 2013, the Company offset 3.1 million of the 7.4 million outstanding call options previously sold to Britannic Trading Limited, a subsidiary of BP Oil International Limited, in February 2013 by purchasing 3.1 million call options effective between October 2014 and September 2016 (defined as the Tranche 1 Call Options under the Bond Agreement) for $USD33.5 millon (Note 17) and at September 30, 2013 is included in other payables.

Under the Bond Agreement, capital expenditures are limited to assets within the borrowing base (currently Huntington, Trent & Tyne, Orlando, Kells, Ronan and Oran) (Note 7). Under the Bond Agreement a working interest of at least fifty percent must be maintained in Orlando and Kells. Additionally no sale or disposal of any (direct or indirect) ownership interest in the Huntington Asset shall be permitted during the term of the Bonds as long as any call options are outstanding under the BP Structured Energy Derivative.

Under the Bond Agreement the Company must maintain a leverage ratio (defined as net interest bearing debt divided by EBITDA) of not more than 3.0x, and ensure a minimum Capital Employed Ratio (defined as Equity divided by the sum of Equity and net interest bearing debt) of 40% from the Settlement Date to and including 31 December 2016, and minimum 50% thereafter.

13. Decommissioning Liabilities

Balance December 31, 2012	656
Acquisitions (Note 3)	12,771
Exchange movements	43
Accretion	188
Balance September 30, 2013	**13,658**

The total future decommissioning liability was calculated by management based on its net ownership interest in the Orlando and Huntington fields and the estimated costs to be incurred in future periods to reclaim and abandon the wells. The decommissioning liability was measured using pre-tax, risk-free discount rates ranging from 3.83% to 4.15% percent and an inflation rate of 2.00% percent over the estimated life of the asset to calculate the present value of the decommissioning liability. The costs are expected to be incurred at various intervals over the next 18 years.

14. 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, 2013 had the following common shares, warrants and share options outstanding:

	Expiry Date	Exercise Price	Total Number
Common shares			366,830,866
Options	May 31, 2015	$0.60	9,550,000
	November 25, 2015	$0.60	100,000
	April 13, 2017	$0.57	16,645,000
	August 29, 2017	$0.38	37,500
	January 10, 2018	$0.59	175,000
	March 5, 2018	$0.63	6,897,500

On February 21, 2013, the Company announced the closing of a $23 million bought deal private placement. A total of 41,818,600 common shares were sold, which includes shares issued on the exercise in full of a 15

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

14. Share Capital - continued

percent over-allotment option granted to the agents retained by the Company for purposes of the offering. The sale price of each share sold in connection with the offering was $0.55.

On February 22, 2013, the Company had 87,300 warrants with a strike price of $0.22 exercised for total proceeds of $19,000.

On July 30, 2013, the Company had 20,000 warrants with a strike price of $0.22 exercised for total proceeds of $4,400.The increase in share capital during the nine months to September 30, 2013, net of issue costs amounted to $21,382,000.

The Company also granted 175,000 and 7,420,000 of share options to directors, officers, employees and consultants on January 10, 2013 and March 5, 2013 respectively. Other than the 175,000 share options granted to person retained to provide investor relations activities, which vest as to ¼ immediately and ¼ on each of the dates three months, six months and nine months thereafter, the Company's share 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, 2013
Fair value at grant date:	
Options granted on January 10, 2013	$0.40
Options granted on March 5, 2013	$0.41
Exercise price:	
Options granted on January 10, 2013	$0.59
Options granted on March 5, 2013	$0.63
Expected volatility	75%
Risk-free rate	2.06%
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.

15. Related Party Transactions

During the three months and nine months ended September 30, 2013, the Company was charged $248,000 (2012 - $24,000) and $655,000 (2012 – $351,000), respectively in legal fees of which $97,000 (2012 - $220,000) related to share issuance costs by a law firm where a director of the Company is a partner, of which $246,000 is included in accounts payable and accrued liabilities as at September 31, 2013 and $70,000 as at December 31, 2012.

Included in accounts receivable is $117,366 (2012 - $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 November 28, 2013. The amounts owing are non-interest bearing and secured. The Company expects full repayment of the remaining balances.

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.

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

16. Commitments and Contingencies

In addition to the amounts recorded in the condensed consolidated financial statements, based on management's best estimate, the Company has the following contractual obligations:

	September 30, 2013				
	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	**224**	16	47	71	90
UK Segment					
Office lease	**161**	92	69	-	-
Drilling, completion, facility construction	**7,966**	7,966	-	-	-
Total UK Segment	**8,127**	8,058	69	-	-
Corporate Segment					
Office lease	**12**	12	-	-	-
Total Contractual Obligations	**8,363**	8,086	116	71	90

The above table does not include contingent property payments with respect to the Orlando property due pursuant to property acquisition agreements as disclosed in Note 10.

17. Financial Instruments and Risk Management Contracts

To estimate fair value of the risk management contracts, the Company uses quoted market prices when available, or industry accepted third-party models and valuation methodologies that utilize observable market data. In addition to market information, the Company incorporates transaction specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk. The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. However, these fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

The three levels of the fair value hierarchy are as follows:

• Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives). Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

• Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates, and volatility factors, which can be observed or corroborated in the marketplace.

• Level 3 - inputs that are less observable, unavailable or where the observable data does not support the majority of the instruments fair value.

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

17. Financial Instruments and Risk Management Contracts - continued

In forming estimates, the Company utilizes the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorized based upon the lowest level of input that is significant to the fair value measurement. The valuation of commodity put and call options, and the prepayment option (Note 12) is based on similar transactions observable in active markets or industry standard models that primarily rely on market observable inputs. Substantially all of the assumptions for industry standard models are observable in active markets throughout the full term of the instrument. These are categorized as Level 2 and are designated as held-for-trading.

The following table presents the Company's material financial instruments measured at fair value for each hierarchy level as of September 30, 2013:

	Level 1	Level 2	Level 3	Total Fair Value
Non-current assets				
Derivative financial instrument assets (put options)	-	4,141	-	4,141
Current liabilities				
Bonds – embedded derivative (Note 12)	-	1,179	-	1,179
Derivative financial instrument liabilities (call options)	-	14,047	-	14,047
Non-current liabilities				
Derivative financial instrument liabilities (call options)	-	28,403	-	28,403

The table below presents the total loss on financial instruments that has been disclosed through the consolidated statement of comprehensive income:

	Three Months Ended Sept 30 **2013**	Three Months Ended Sept 30 2012	Nine Months Ended Sept 30 **2013**	Nine Months Ended Sept 30 2012
Cost of derivative options	-	-	7,407	-
Unrealized (gain) / loss on commodity hedges	2,386	-	4,957	-
Realized (gain) / loss on commodity hedges	6,806	-	6,806	-
Total (gain)/ loss on commodity hedges	**9,192**	-	**19,170**	-

All other financial assets are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. The fair value of the Bonds is CAD$275,767,000 based on market rates available to the Company. The carrying amount of the other financial assets and liabilities approximates the fair value due to its short maturities.

i) Commodity Risk

The table above presents the total loss on commodity hedges that has been disclosed through the statement of net and comprehensive income. Commodity price risk related to crude oil prices is the

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

17. Financial Instruments and Risk Management Contracts - continued

Company's most significant market risk exposure. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. The Company is also exposed to natural gas price movements on un-contracted gas sales. Natural gas prices, in addition to the worldwide factors noted above, can also be influenced by local market conditions. The Company'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.

The Company may periodically use different types of derivative instruments to manage its exposure to price volatility, thus mitigating fluctuations in commodity-related cash flows.

In conjunction with the loan facility detailed in Note 12, the Company also entered into hedging arrangements with the loan facility banks on February 21, 2013 for the option to sell a total of 1,330,791 barrels of oil over the period of April 1, 2013 to March 31, 2014 at a strike price of USD$100 per barrel of oil.

On February 21, 2013, the Company completed the Payment Swap whereby Iona received $60 million in exchange for granting Britannic Trading Ltd., a subsidiary of BP Oil International Limited, the option to purchase 8.1 MMbbl of Brent blend crude from Iona's Orlando, Kells and Huntington fields for a period of five (5) years at an average price of USD$95.84 per barrel. In conjunction with the Payment Swap, Iona also entered into a marketing and offtake agreement with BP Oil International Limited in respect of certain quantities of oil expected to be produced from the Company's Orlando and Kells properties.

On September 27, 2013, the Company offset 3.1 million of the 7.4 million remaining call options previously sold to Britannic Trading Limited ("BTL"), a subsidiary of BP Oil International Limited, in February 2013 by purchasing 3.1 million call options effective between October 2014 and September 2016 (defined as the Tranche 1 Call Options under the Bond Agreement) for USD$33.5 million (Note 17) and at September 30, 2013 is included in other payables.

The table below shows Iona's net position on a quarterly basis of the call option structures sold to and bought from BTL on February 21, 2013 and September 30, 2013 respectively.

		Call Options (bbls)			Strike (USD$/bbl)
		Sold	Bought	Net Position	
2013	Q4	343,038	-	343,038	100
2014	Q1	334,687	-	334,687	100
	Q2	338,407	-	338,407	95
	Q3	342,125	-	342,125	95
	Q4	762,818	496,901	265,917	95
2015	Q1	478,397	274,396	204,001	95
	Q2	483,711	334,045	149,666	95
	Q3	489,027	377,830	111,197	95
	Q4	489,027	394,678	94,349	95
2016	Q1	470,470	390,723	79,747	95
	Q2	470,468	401,251	69,217	95
	Q3	475,639	418,356	57,283	95
	Q4	475,639	-	475,639	95
2017	Q1	316,429	-	316,429	95
	Q2	319,946	-	319,946	95
	Q3	323,461	-	323,461	95
	Q4	323,461	-	323,461	95
2018	Q1	187,206	-	187,206	95
Total		7,423,956	3,088,180	4,335,776	

17. Financial Instruments and Risk Management Contracts - continued

ii) Interest Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges. The Company has a fixed interest rate on the Bonds of 9.5 percent per annum, which is not linked to any market variables.

iii) Credit Risk

Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge cash, restricted cash and accounts receivable. Cash and restricted cash is placed with major financial institutions. The maximum exposure to credit risk is approximate to the carrying value of such financial instruments. The Company does not have an allowance for doubtful accounts as at September 30, 2013, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended September 30, 2013 or 2012. All third party receivables have been settled subsequent to the quarter end apart from the amounts due from an officer as disclosed in Note 15.

iv) Foreign Currency Exchange Risk

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 September 30, 2013, 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 September 30, 2013 would have impacted the comprehensive loss of the Company for the nine month period ended September 30, 2013 by $353,000 (nine months ended September 30, 2012 – $507,000).

In addition at September 30, 2013, the Company held $54,524,000 (£32,769,000) (2012 - $30,913,000 (£19,489,000)) of accounts payable in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates at September 30, 2013 would impact the comprehensive loss of the Company for the nine month period ended September 30, 2013 by $545,000 (nine months ended September 30, 2012 - $310,000).

v) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle commitments as they become due;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

As the Company's industry is very capital intensive, the majority of the spending is related to the Company's capital programs. The Company's goal is to prudently spend its capital. As circumstances change, liquidity risks may necessitate the Company to issue equity, obtain debt financing, or sell assets. The Company's contractual obligations, in addition to those recorded in the condensed consolidated financial statements, are included in Note 16 and further details of liquidity are discussed in Note 18.

18. 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 senior secured bonds and shareholders' equity. The Company's strategy is to access capital primarily through equity issuances 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 and to meet the liquidity and sufficient funding tests of the senior secured bonds, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels.

As at September 30, 2013, the Company has net current assets of $71.2 million and commitments due in the next 12 months as further detailed in Note 16.

CORPORATE INFORMATION

DIRECTORS

Neill A. Carson (3)(5)
Aberdeen, Scotland

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

Richard Ames(3)
Charleston, South Carolina

(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

Graham A. Heath
Interim Chief Financial Officer

Alan Curran(5)
Chief Operating Officer

Peter F. Campbell(5)
VP Asset Manager

Colin Tannock
Chief of Subsurface

John Baillie
VP Developments

Robin Baxter
VP Business Development

OFFICES

Calgary, Canada
Banker's Hall
Suite 1000, 888-3rd St SW
Calgary, AB, T2P 5C5
TEL: +403.444.541

Aberdeen, United Kingdom
Lower Ground Suite
3 Queen's Gate
Aberdeen AB15 5YI
United Kingdom
TEL: +44.1224.228400

WEBSITE: www.ionaenergy.com
EMAIL: info@ionaenergy.com

REGISTER AND TRANSFER AGENT
Olympia Trust
Calgary, Alberta, Canada

EXCHANGE LISTINGS
The Toronto Stock Exchange
TSX-V: INA

SECURITIES FILINGS
www.sedar.com

Information requests and other Investor relations inquiries can be directed to:

info@ionaenergy.com or by telephone at +403.444.5416