Iona Energy Inc.
Condensed Consolidated Financial Statements - Unaudited
For the three month period ended March 31, 2013

Contents

(In thousands of Canadian dollars)	Notes	March 31, 2013	December 31, 2012
ASSETS			
Current Assets			
Cash and cash equivalents		**29,857**	15,500
Accounts receivable		**306**	3,214
Prepaid expenses		**1,840**	1,266
Restricted cash	**6**	**1,914**	706
Derivative instruments	**15**	**3,856**	-
Total Current Assets		**37,773**	20,686
Restricted cash	**6**	**6,754**	9,052
Deferred costs	**8**	**-**	38,356
Exploration and evaluation assets	**8**	**120,688**	135,358
Property and equipment	**9**	**333,557**	71
Goodwill	**3**	**14,230**	-
Total Non-Current Assets		**475,229**	182,837
Total Assets		**513,002**	203,523
LIABILITITES AND SHAREHOLDERS'S EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**40,204**	55,406
Interest bearing loans and borrowings	**10**	**30,945**	-
Derivative instruments	**15**	**13,899**	-
Total Current Liabilities		**85,048**	55,406
Non-Current Liabilities			
Decommissioning liabilities	**11**	**13,014**	656
Interest bearing loans and borrowings	**10**	**104,400**	-
Deferred tax liabilities	**5**	**90,660**	-
Derivative liabilities	**15**	**67,096**	-
Total Non-Current Liabilities		**275,170**	656
Total Liabilities		**360,218**	56,062
Shareholders' Equity			
Share capital	**12**	**177,362**	155,985
Contributed surplus	**12**	**7,904**	6,183
Accumulated other comprehensive income		**(3,519)**	1,985
Deficit		**(28,963)**	(16,692)
Total Shareholders' Equity		**152,784**	147,461
Total Liabilities and Shareholders' Equity		**513,002**	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 Loss - Unaudited

(In thousands of Canadian dollars, except for per share and share amounts)	Notes	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Revenue			
Revenue	4	**1,873**	-
Expenses			
Operating expenses		**(802)**	-
Depletion, depreciation and amortization		**(974)**	-
General and administrative		**(3,417)**	(790)
Exploration and evaluation	8	**(288)**	(70)
(Loss) / gain on financial instruments	15	**(23,876)**	-
Transaction acquisition costs	3	**(957)**	-
Gain on acquisition	3	**6,426**	-
Total Expenses		**23,888**	(860)
Loss before net finance costs and tax		**(22,015)**	(860)
Finance costs		**(805)**	(2)
Finance income		**8**	12
Foreign exchange gain / (loss)		**241**	(175)
Net finance (costs) / income		**(556)**	(165)
Net loss before tax		**(22,571)**	(1,025)
Taxation - recovery	5	**10,300**	-
Net loss		**(12,271)**	(1,025)
Unrealized foreign exchange (loss) / gain on net investments		**(6,140)**	649
Exchange differences (loss) / gain on re-translation of foreign operations		**636**	(32)
Comprehensive loss for the period		**(17,775)**	(408)

Net loss per share - basic and diluted		$ **0.04**	$ 0.01
Weighted average shares outstanding - basic and diluted (1)		**342,596,818**	140,860,566

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

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

Condensed Consolidated Statements of Changes in Shareholders' Equity - Unaudited

(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	-	-	-	(12,271)	(12,271)
Stock based payments	-	1,721	-	-	1,721
Foreign currency translation	-	-	(6,140)	-	(6,140)
Unrealized foreign exchange on investment	-	-	636	-	636
Issue of shares (net of issue costs)	21,377	-	-	-	21,377
Balance March 31, 2013	177,362	7,904	(3,519)	(28,963)	152,784

(In thousands of Canadian dollars)	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	-	-	-	(1,025)	(1,025)
Stock based payments	-	357	-	-	357
Foreign currency translation	-	-	649	-	649
Unrealized foreign exchange on investment	-	-	(32)	-	(32)
Balance March 31, 2012	69,921	2,036	41	(7,146)	64,852

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

(In thousands of Canadian dollars)	Notes	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Cash flows from/(used in) operating activities			
Net loss for the period		**(12,271)**	(1,025)
Items not involving cash:			
Depletion, depreciation and amortization		**974**	6
Decommissioning accretion		**68**	2
Gain on acquisition		**(6,426)**	-
Unrealized loss on fair value of derivative instruments	**15**	**16,469**	-
Amortization of loan costs		**26**	-
Taxation - recovery		**(10,300)**	-
Share based payments		**1,721**	357
		(9,739)	(660)
Changes in non-cash working capital balances:			
Accounts receivable		**1,214**	(61)
Prepaid expenses		**(832)**	(77)
Accounts payable and accrued liabilities		**734**	(317)
Cash flow used in operating activities		**(8,623)**	(1,115)
Cash flows from/(used in) financing activities			
Issue of common shares, net of issue costs		**21,377**	-
Derivative call options sold		**61,344**	-
Bank loan draw downs net of costs		**137,375**	-
Repayment of subsidiary loans and derivatives		**(57,141)**	-
Cash flow from financing activities		**162,955**	-
Cash flows from/(used in) investing activities			
Expenditures on property and equipment		**-**	(49)
Expenditures on exploration and evaluation		**(11,743)**	(18,127)
Expenditure on acquisition of Orlando interest		**(46,809)**	-
Purchase of Huntington oil field		**(119,573)**	-
Disposal of exploration and evaluation assets		**37,692**	-
Deferred costs		**-**	(1,374)
Restricted cash		**1,091**	(7,454)
Cash flow used in investing activities		**(139,342)**	(27,004)
Effect of exchange rate changes on cash		**(633)**	29
Increase/(decrease) in cash		**14,357**	(28,090)
Cash, beginning of period		**15,500**	41,608
Cash, end of period		**29,857**	13,518

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

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

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

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 May 30, 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 entirely to 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	**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 is 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 approximately $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 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.

Carrizo UK was a private company with interests in the Huntington field located in the United Kingdom continental shelf. As such, goodwill consists primarily of the undiscounted value associated with the deferred tax liability. 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

4. Revenue

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Gas sales	**1,804**	-
Condensate sales	**69**	-
	1,873	-

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

5. Taxation

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

	Three Months Ended March 31, 2013	Three Month Ended March 31, 2012
Taxation – recovery	**10,300**	-

Deferred tax liabilities in statement of financial position:

	Three Months Ended March 31, 2013	Three Month Ended March 31, 2012
Deferred taxation liabilities arising on acquisition fair values	**101,700**	-
Exchange movement	**(740)**	-
Taxation – recovery	**(10,300)**	-
	90,660	-

At March 31, 2013, the unrecognized deferred tax asset is approximately $9.7 million.

6. Restricted Cash

Current
As of March 31, 2013, the Company had $1,914,000 of restricted cash (December 31, 2012 - $706,000), which will be held until the completion of long lead items.

Non-Current

At March 31, 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 March 31, 2013, the Company had $6,600,000 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 – 2,002,0000) held for the completion of long lead items, and $102,000 (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.)

7. 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.

	Three Month Period Ended March 31, 2013			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	1,873	-	-	**1,873**
Operating Cost	(802)	-	-	**(802)**
Depletion, depreciation and amortization	(974)	-	-	**(974)**
Loss before net finance costs and tax	(19,725)	-	(2,290)	**(22,015)**
Net finance costs	(563)	-	7	**(556)**
Taxation - recovery	10,300	-	-	**10,300**
Net loss	(9,988)	-	(2,283)	**(12,271)**
	As at March 31, 2013			
Total assets	508,633	936	3,433	**513,002**
Total liabilities	358,724	-	1,494	**360,218**

	Three Month Period Ended March 31, 2012			
	United Kingdom	United States	Corporate	Total
Depreciation	6	-	-	6
Expenses before net finance income and tax	(663)	-	(372)	(1,035)
Net finance income	1	-	9	10
Net loss	(662)	-	(363)	(1,025)

	As at March 31, 2012			
	United Kingdom	United States	Corporate	Total
Total assets	69,645	917	5,407	75,969
Total liabilities	10,657	-	460	11,117

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

8. 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	13,200	1,151	-	14,351	-	14,351	-
Acquisition (Note 3)	15,000	-	-	15,000	-	15,000	-
Transfers to property		-	-	(299)	-	(299)	(38,356)
and plant	(299)		-	(37,692)	-	(37,692)	-
Disposals	-	(37,692)	-	-	-	-	-
Effect of changes in exchange rates	(1,761)	(2,897)	(1,381)	(6,039)	9	(6,030)	-
Balance March 31, 2013	**61,096**	**27,922**	**30,734**	**119,752**	**936**	**120,688**	**-**

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

General E&E

During the three months ended March 31, 2013, the Company expensed $288,000 (2012 - $70,000) of exploration and evaluation costs. The additions to general E&E mainly relates to development expenditure on both the Orlando and Kells fields.

Property payments and disposals

On July 9, 2012, the IEUKL 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 announced the closing of its 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.

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.

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

9. Property and Equipment

	Development & Production Oil and Gas assets	Other Fixed Assets	Total
Cost			
At December 31, 2012	-	107	107
Additions	2,162	-	2,162
Acquisitions (Note 3)	336,760	-	336,760
Exchange differences	(4,457)	(5)	(4,462)
At March 31, 2013	**334,465**	**102**	**334,567**
Depletion, depreciation and amortisation			
At December 31, 2012	-	36	36
Charge for the period	968	6	974
At March 31, 2013	**968**	**42**	**1,010**
Carrying value at December 31, 2012	-	71	71
Carrying value at March 31, 2013	**333,497**	**60**	**333,557**

10. Loan Facility

Interest bearing loans and borrowings consists of the following:

	31 March 2013	31 March 2012
Current		
Loan facility	32,375	-
Deferred financing costs	(1,430)	-
	30,945	-
Non-current		
Loan facility	109,224	-
Deferred financing costs	(4,824)	-
	104,400	-
	135,345	-

On February 21, 2013, Iona UK entered into the Credit Facility with a group of three banks lead by Bank of America Merrill Lynch, Lloyds TSB Bank, and BNP Paribas. The Credit Facility will mature 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 reserve quantities associated with the borrowing base assets falls below 25% of the initial oil and gas reserve attributed to the borrowing base assets (being Iona UK's Huntington assets and Trent & Tyne Assets). Amounts drawn under the Credit Facility bear 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 Credit Facility, the Company provided a guarantee of Iona UK’s obligations under the Credit Facility.

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

10. Loan Facility - continued

The lenders in the Credit Facility were also granted a first-ranking charge against the shares and assets of Iona UK.

The Credit Facility also contains terms customary in respect of UK North Sea senior secured reserve-based borrowing facilities, including various representations and warranties around sufficient funding and liquidity tests, covenants, negative covenants and events of default relating to Iona's business activities and properties.

As of the date hereof, Iona has drawn USD$ 139.3 million of the USD$ 150 million currently available under the Credit Facility.

Upon completion of certain conditions in the Credit Facility, the total amount available under the Credit Facility will increase from USD$ 150 million to USD$ 250 million.

11. Decommissioning Liabilities

Balance December 31, 2012	656
Acquisitions (Note 3)	12,771
Exchange movements	(481)
Accretion	68
Balance March 31, 2013	**13,014**

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.

12. 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 March 31, 2013 had the following Common shares, warrants and share options outstanding:

	Expiry Date	Exercise Price	Total Number
Common shares			366,810,866
Warrants	August 12, 2013	$0.22	5,600
	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

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

12. Share Capital - continued

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

On February 22, 2013, the Company had 87,300 warrants with a strike price of $0.22 exercised for total proceeds of $19,000. The increase in share capital during the three months to March 31, 2013, net of issue costs amounted to $21,377,000.

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. The options granted vest as follows: ¼ immediately and ¼ vesting on the first, second and third anniversary dates and expire five years from the date of issue. The fair value of the options was estimated using the Black Scholes option pricing model with the following assumptions:

	3 months ended March 31, 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.

13. Related Party Transactions

During the three months ended March 31, 2013, the Company was charged $358,000 (2012 - $128,000), in legal fees of which $97,000 (2012 - $120,000) related to share issuance costs by a law firm where a director of the Company is a partner, of which $358,000 is included in accounts payable and accrued liabilities as at March 31, 2013 and $70,000 as at December 31, 2012.

Included in accounts receivable is $265,013 (2012 - $265,013) 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 May 29, 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.)

14. Commitments and Contingencies

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

	March 31, 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	**208**	92	116	-	-
Drilling, completion, facility construction	**7,966**	7,966	-	-	-
Total UK Segment	**8,174**	8,058	116	-	-
Corporate Segment					
Office lease	**12**	12	-	-	-
Total Contractual Obligations	**8,410**	8,086	163	71	90

The above table does not include property payments due pursuant to property acquisition agreements as disclosed in Note 8.

15. 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 instrument's fair value.

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

15. 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 puts and calls 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 31 March 2013:

	Level 1	Level 2	Level 3	Total Fair Value
Current assets				
Derivative financial assets	-	3,856	-	3,856
Current liabilities				
Derivative financial instrument liabilities	-	13,899	-	13,899
Non-current liabilities				
Derivative financial instrument liabilities	-	67,096	-	67,096

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

	Three Months Ended March 31 2013	Three Months Ended March 31 2012
Cost of derivative options	**7,407**	-
Unrealized loss on commodity hedges	**16,469**	-
Total loss on commodity hedges	**23,876**	-

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 interest bearing loans is approximately $141,500,000 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 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.

15. Financial Instruments and Risk Management Contracts - continued

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 10, 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 International Limited, the option to purchase 8.1 MMboe (which equates to approximately one-third of Iona's proved plus probable reserves) 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 Ltd. in respect of certain quantities of oil expected to be produced from the Company's Orlando and Kells properties.

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 or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Calculation of interest payments for the loan facility with Bank of America Merrill Lynch, Lloyds TSB Bank plc, and BNP Paribas signed on February 21, 2013 incorporates LIBOR. The Company will therefore be exposed to interest rate risk to the extent that LIBOR may fluctuate.

Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have increased / (decreased) the net loss for the period by $168,000.

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 March 31, 2013, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 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 13.

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 March 31, 2013, March 31, 2012, or thereafter.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash and restricted cash balances at March 31, 2013 would have impacted the comprehensive loss of the Company for the three month period ended March 31, 2013 by approximately $353,000 (three months ended March 31, 2012 – $172,000).

15. Financial Instruments and Risk Management Contracts - continued

In addition at March 31, 2013, the Company held approximately $32,342,000 (£20,884,000) (2012- $10,482,000 (£6,564,000)) of accounts payable and unearned revenue in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates at March 31, 2013 would impact the comprehensive loss of the Company for the three month period ended March 31, 2013 by approximately $323,000 (three months ended March 31, 2012 - $105,000).

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 are included in Note 14 and further details of liquidity are discussed in Note 16.

16. 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 long-term debt and shareholders' equity. The Company's strategy is to access capital, primarily through equity issuances, reserve based lending, and other alternative forms of debt financing. The Company actively manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to uphold its capital structure and to meet the loan facility liquidity and sufficient funding tests, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels.

As at March 31, 2013, the Company has net current liabilities of $47.3 million and commitments due in the next 12 months of approximately $8.1 million (Note 14). Management has, at the time of approving the financial statements, a reasonable expectation that the Company has the adequate resources to continue in operational existence for the foreseeable future due to the fact that the net cashflows received from its Huntington and Trent & Tyne fields in the next year will to cover its cash outflows and if necessary the Company will raise funds through issuing further shares or debt financing.

Under the Credit Facility, capital expenditures are limited to assets within the borrowing base (currently Huntington and Trent & Tyne) unless otherwise agreed to by all Lenders. Allowable capital expenditures include: a) all cash calls by the Operators; b) all capital costs; c) all costs of producing, lifting, transporting, storing, processing and selling associated hydrocarbons; d) all costs of reinstating damaged facilities; e) all costs of satisfying any liability in respect of seepage, pollution and well control; f) all insurance premiums and all the fees, costs and expenses; g) all exploration and appraisal expenditures; h) all costs of abandonment, and any payments to make provision for abandonment costs; i) all royalties and other amounts payable under any Petroleum production licence; j) all general and administrative expenditures; k) loan repayments and finance costs; and l) any other costs, expenses or payments as agreed to by the Lenders. As at March 31, 2013 the Company was in compliance with its applicable covenants.

CORPORATE INFORMATION

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Neill A. Carson (3)(5)
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Donald Copeland (1)(2)(3)
Calgary, Alberta

Roger Laing (2)(4)
Calgary, Alberta

Rod Maxwell (1)(3)
Calgary, Alberta

Jay Zammit (1)(2)(4)
Calgary, Alberta

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

OFFICERS

Neill A. Carson
President and Chief Executive Officer

Graham A. Heath
Interim Chief Financial Officer

Alan Curran(5)
Chief Operating Officer

Peter F. Campbell(5)
Manager, Commercial Infrastructure

Colin Tannock
Chief of Subsurface

Dave Sherrard
VP Development

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VP Business Development

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