Iona Energy Inc.
Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of Iona Energy Inc. ("Iona" or "the Company") for the three months ended March 31, 2013. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes of the Company as at March 31, 2013 and with the MD&A, Annual Information Form ("AIF") and the audited consolidated financial statements for the year ended December 31, 2012. Copies of these documents and additional information about Iona are available on SEDAR at www.sedar.com.

This MD&A is dated May 30, 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 and timelines 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, statements regarding Iona's credit facility, future obligations under hedging arrangements including the Payment Swap (as defined herein), 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 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 three months to March 31, 2013, 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 future 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

Huntington - on stream April 12, 2013

Iona, through IEUKL, completed the acquisition of 100% of the issued and outstanding shares of Carrizo UK Huntington Limited ("Carrizo UK"). The transaction was completed on February 22, 2013 by way of a sale and purchase agreement dated December 27, 2012 among Iona, IEUKL and Carrizo Oil & Gas Inc. ("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") and royalties equivalent to 2.55% of total gross oil and gas production payable to Carrizo UK from the other Huntington Joint Venture Partners. Under the terms of the sale and purchase agreement, total consideration paid on closing by IEUKL to Carrizo Oil was $127.8 million. An additional deferred payment of $18.9 million is due and payable to Carrizo Oil upon receipt of first oil revenues from the Huntington field. Also on closing, IEUKL repaid Carrizo UK's debt and deferred hedging premiums at the completion date, which was approximately $57.1 million.

Iona has determined that this transaction represents a business combination with Iona identified as the acquirer. We began consolidating the operating results, cash flows and net assets of Carrizo UK from February 22, 2013. Subsequent to the acquisition, Carrizo UK was renamed to "Iona UK Huntington Ltd".

The Operator of the Huntington field, E.ON Ruhrgas UK E&P Ltd, announced that production, which commenced Friday April 12th, 2013, is producing approximately 7,500 bbls/d. Production is expected to increase to the predetermined Floating Production Storage and Offloading unit ("FPSO") capacity of 30,000 bbls/d of oil and 27 MMcf/d of natural gas once the gas compression systems have been commissioned, which is scheduled to occur shortly. Once the gas compression has been initiated, production should ramp up to full capacity by the end of June 2013.

Production at Huntington is lifted in approximately 200,000 barrel increments, and the first shipment occurred on May 16th, 2013. Huntington produces 43º API light oil, which yields a premium to Brent, and Iona estimates current operating costs to be USD$15/boe.

Iona engaged Gaffney, Cline & Associates Ltd. ("GCA") to prepare an independent reserves evaluation of the Huntington Field and expects to provide their findings shortly. The Huntington Oil Field has discoveries made in three horizons, the Paleocene Forties formation, the Jurassic Fulmar formation and the Triassic Skagerrak formation. At this time, reserves will only be assigned to the Paleocene Forties formation, which has been developed through four production and two water-injection wells to achieve the aforementioned capacity figures. Huntington discovery well 22/14b-5 drilled by a previous operator tested at peak rates of up to 4600 bbls/d and 1.6 MMcf/d from the Fulmar sand, suggesting that development of this reservoir could extend the economic life of Huntington. Iona is considering joint venture appraisal drilling of the adjacent Fulmar compartment. Additionally, work is ongoing to evaluate the recoverable resources within the Jurassic Fulmar and Triassic Skagerrak oil-bearing intervals, which Iona believes could be significant if tied back to the Huntington production facility.

The Company recently entered into a binding sales and purchase agreement for the acquisition of a 100% working interest in part of UKCS block 22/14d from Carrizo Oil, and is awaiting final completion pending formal regulatory approval from the UK DECC. Block 22/14d is located in the Central North Sea, immediately to the south of Block 22/14b, containing the Huntington Palaeocene oil field, the Jurassic Fulmar, and the Triassic Skagerrak discoveries in which Iona has a 15% stake. Iona plans to remap both the Jurassic targets and Triassic discoveries in the near-term, and future appraisal could see these as candidates for development through the existing infrastructure at the producing Huntington field.

Orlando – A proven undeveloped oil discovery

On July 9, 2012, 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. 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.

Following the logging and suspension of the 3/3b-13z well in March 2012, an FDP has subsequently been prepared and approved by the UK Department of Energy and Climate Change (" UK DECC"). The development plan for Orlando contemplates the re-entering of the 13z well and drilling as a 3,000 foot horizontal producer. The well will be completed with dual ESPs. Additionally, a subsea pipeline, power supply and control umbilical are expected to be laid between the well-head and the Ninian Central platform approximately 10 km to the south west. Engineering modifications will be completed at Ninian allowing tie-in and first production shortly after completing the development well. It was contemplated that each of these items would be completed in 2014 and first oil from Orlando expected in the second half of 2014. However, subsequent to December 31, 2012, Iona has determined that there is a risk that some of these items may not be completed in 2014 and Iona aims to achieve first oil from Orlando as soon as possible in 2015.

Kells – Redevelopment of a proven field

Kells is slated for development through Ninian Central following tie-in of Orlando to the same facility. The Kells development plan comprises two subsea production wells, an oil pipeline, a control umbilical, and some pipework modifications at Ninian. A draft FDP has been prepared and project activity will be phased through 2014 and 2015, with first oil expected in 2016. A subsequent water injection project is planned to unlock additional reserves. This project will involve the laying of water injection and gas lift lines, and the conversion of the second well to water injection service.

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 was completed on February 21, 2013 for total gross proceeds of USD$37.7 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

The 44/19-T6 ("T6") well reached total depth in December 2012 and was tied-in to the production system in January 2013. Iona's net cost exposure for the T6 well was capped at £21.2 million (approximately USD$32.5 million). The well commenced production at rates exceeding Iona's expectations, as announced by Iona in January 2013. Additionally, following a seismic acquisition program in summer 2011, Perenco, the operator, is in the process of preparing an authorization for expenditure (an "AFE") to drill the Tyne North West prospect. Upon receipt of the AFE, Iona then has a 45 day option to fund the well and increase its working interest in the Trent & Tyne ("T&T") Assets from 20% to 37.5%. Iona is currently considering its option to fund the well to increase its working interest. Furthermore, Iona understands that Perenco is currently assessing a short sidetrack of the T1Z well to unlock a lower high-pressure zone. Iona is awaiting the operator's guidance on the timing for the work program.

On completion of the T6 well, the acquisition of a 20% interest in T&T from Perenco was considered complete under the accounting standard IFRS 3 Revised, Business Combinations. The Company has determined that this transaction represents a business combination with Iona identified as the acquirer. The accounting for this is detailed in the consolidated financial statements for the Company for the quarter ended March 31, 2013.

The net production from T&T to Iona during the three months ended March 31, 2013 was 2.3 MMscf/d. Production was lower than anticipated due to a scheduled six-week shutdown on the Bacton processing facility during February and March. The average realized gas price for the quarter was strong at $10.39/mcf. As of May 13, 2013, both T&T were producing at a combined production rate of 43.3 MMcf/d,

net 8.7 MMcf/d to Iona. Production at the T6 well on the Tyne Gas is currently producing at a stabilized rate of 28 MMcf/d.

West Wick – Oil Discovery

Iona completed the acquisition of operatorship and a 58.73% working interest in West Wick in August 2012 and is the operator on the block. West Wick is programmed for a three well subsea development targeting first oil in 2016. The development will comprise two producers and one injector. The most likely development is via offset field infrastructure; however, Iona is also considering stand-alone facilities.

Exploration

The Company's portfolio of assets will continue to grow through acquisitions, farm-ins and participation in license rounds.

Corporate Transactions

On February 21, 2013, the Company closed a brokered private placement of 41,818,600 common shares ("Common Shares") at a price of $0.55 per share, which included the exercise in full of the 15% over-allotment option granted to the underwriters of the offering. Aggregate gross proceeds of $23.0 million, were raised pursuant to the offering.

On February 21, 2013, IEUKL entered into a credit facility ("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 reserves (as determined by management) associated with the borrowing base assets falls below 25% of the initial oil and gas reserve quantities attributed to the borrowing base assets (being IEUKL's Huntington assets and T&T 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 U.K or European regulatory requirements, if any. In conjunction with the Credit Facility, the Company provided a guarantee of IEUKL's obligations under the Credit Facility. The lenders in the Credit Facility were also granted a first-ranking charge against the shares and assets of IEUKL. The Credit Facility also contains terms customary in respect of UK North Sea reserve-based borrowing facilities, including various representations and warranties, 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 is expected to increase from USD$150 million to USD$250 million. In conjunction with the Credit Facility, IEUKL also entered into hedging arrangements with the three banks for 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 a structured derivative transaction (the "Payment Swap") whereby Iona received USD$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 Corporation's Orlando and Kells properties.

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.

Highlights Subsequent to the Year End

In addition to the events disclosed in the heading *Key Projects Update*, the Company had the following highlights subsequent to the quarter end:

On April 5, 2013, Iona announced the appointment of Don Copeland as non-executive Chairman, the resignation of Brad Gunn as Chief Financial Officer and as a Director, and the appointment of Graham Heath as Interim Chief Financial Officer.

At May 30, 2013 the fair value of the derivative financial instrument liability associated with the Payment Swap with Brittanic Trading Limited is estimated to be approximately USD$ 62,700,000.

Financial Highlights

Revenue

Iona recognized revenue from hydrocarbon production for the first time this quarter. Revenue was $1.9 million in Q1 2013 (Q1 2012 - $Nil). The revenue was generated from the T&T fields as discussed in *Key Projects Update.*

Operating Costs and Depreciation, Depletion and Amortization ("DDA")

Iona recognized $0.8 million of operating costs and $1.0 million of DDA for the first time this quarter. The costs were generated from the T&T fields as discussed in *Key Projects Update.*

General and Administrative Expenditure

($ thousands)	Three months ended March 31,	
	2013	2012
Consulting fees / wages	**1,089**	233
Professional fees	**363**	81
Stock option expense	**1,721**	357
Bank charges	**9**	35
Travel, office costs and other	**235**	84
Total	**3,417**	790

General and administrative costs for the three months ended March 31, 2013 have increased from the comparative period of 2013 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 the first quarter of 2013.

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 the trading price of the 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.

Foreign exchange

During the three months ended March 31, 2013, the Company recognized foreign exchange gains of $241,000 (2012 – losses of $175,000). The exchange gains in 2013 arose primarily as a result of the strengthening of the US dollar increasing the value of the US dollar working capital balances held in IEUKL, which is GBP functional. These gains were partially offset against the exchange losses arising on the US dollar loan and hedging liabilities.

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.

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

As at March 31, 2013 and as of the date of this MD&A no costs held within Exploration and Evaluation are considered to be impaired, however, the assets have not yet determined to be technically feasible and commercially viable.

General E&E

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.

During the three months ended March 31, 2013, the Company expensed $288,000 (2012 - $70,000) of exploration and evaluation costs to the consolidated statement of operations and comprehensive loss. The additions to general E&E within the statement of financial position mainly relates to development expenditure on both the Orlando and Kells fields and exploration values attributed to the exploration acreage acquired as part of the Huntington acquisition.

Property payments and disposals

On July 9, 2012, the IEUKL completed the purchase of its partners' interests, MPX (30%) and 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.

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 *Key Projects Update*, $38.4 million held in deferred costs in relation to Huntington and T&T were transferred to property and equipment.

Property and Equipment

Due to the business combinations as detailed in *Key Projects Update*, $38.4 million held in deferred costs in relation to Huntington and T&T were transferred to property and equipment and the total cost of the acquisitions recognized in the quarter was $336.8 million.

Goodwill

Carrizo UK acquisition

Goodwill of $14.2 million was recorded on acquisition to the extent that the purchase cost exceeded the fair value of the identifiable assets and liabilities of Carrizo UK. 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.

T&T business combination accounting

The fair value of the identifiable assets and liabilities of T&T exceeded the purchase cost and a profit on acquisition of $6.4 million has been recognized and recorded. The profit is a result of an increase in the fair value of the acquired reserves of T&T from the time when the acquisition was negotiated to the acquisition date. The profit has been taken to the consolidated statement of operations and comprehensive loss.

Credit Facility

The details of the Credit Facility entered into by the Company in the quarter is included in *Corporate Transactions*. Interest bearing loans and borrowings consists of the following at March 31, 2013:

($ thousands)	
Current	
Credit Facility	32,375
Deferred financing costs	(1,430)
	30,945
Non-current	
Credit Facility	109,224
Deferred financing costs	(4,824)
	104,400
	135,345

Derivative Instruments – Commodity Hedging

The details of the hedging contracts entered into by the Company in the quarter is included in *Corporate Transactions.* The Company's derivative financial instruments measured at fair value as of 31 March 2013 is presented in the table below:

($ thousands)	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:

($ thousands)	
Cost of derivative options	7,407
Unrealized loss on commodity hedges	16,469
	23,876

Taxation

A deferred tax credit of $10.3 million was recognized in the quarter ended March 31, 2013 (March 31, 2012 – Nil). This credit arises mainly on the loss noted above on the derivatives. The deferred taxation liability at March 31, 2013 is noted in the table below:

($ thousands)	
Deferred taxation liability arising on acquisition fair values	101,700
Exchange movement	(740)
Temporary differences	(10,300)
	90,660

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.

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

Commitments

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 drilling, completion, facility and construction commitments relate to committed capital expenditures on the Kells and Orlando fields.

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 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. 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 T&T) 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.

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.

All derivative instruments are recorded in the balance sheet at fair value unless they qualify for the expected purchase, sale and usage exemption. All changes in their fair value are recorded in income

unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income until the hedged transaction is recognized in net earnings.

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 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 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).

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).

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 March 31, 2013 had 366,810,866 Common Shares, 132,800 warrants and 34,675,000 stock 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			366,810,866
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

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 Common Share sold in connection with the offering was $0.55.

On February 22, 2013, 87,300 warrants with a strike price of $0.22 were exercised for total proceeds of $19,000 and the issuance of 87,300 Common Shares. 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 will have an exercise price of $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 which are governed by applicable TSX Venture Exchange policies)

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 March 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012
Total revenue	1,873	-	-	-
Net loss	(12,271)	(4,416)	(2,247)	(2,883)
Comprehensive (loss)	(17,775)	(1,826)	(3,182)	(2,594)
Capital expenditures (including deferred costs less disposals)	291,926	72,746	29,427	16,932
Working capital surplus/ (deficit)	(47,275)	(34,720)	40,196	71,514
Total assets	513,002	203,097	179,277	167,321
Loss per share – basic and diluted	0.04	0.014	0.007	0.010

($ thousands, except per share amounts)	Three months ended March 31, 2012	Three months ended December 31, 2011	Three months ended September 30, 2011	Three months ended June 30, 2011
Total revenue	-	-	-	-
Net loss	(1,025)	(1,050)	(607)	(2,694)
Comprehensive (loss)/ income	(408)	(2,674)	1,892	(4,028)
Capital expenditures (including deferred costs less disposals)	22,597	9,116	11,992	2,854
Working capital surplus	4,940	36,451	45,709	56,063
Total assets	75,969	72,120	69,450	66,320
Loss per share – basic and diluted	0.007	0.008	0.004	0.019

The revenue for the three months ended March 31, 2013 was generated from the T&T fields as discussed in *Key Projects Update.* The net loss for the three months ended March 31, 2012, mainly increased due to a loss of $23.9 million on financial instruments being expensed in the quarter, an increase in professional fees, consultant costs and finance fees being incurred as a result corporate and financing activity in the quarter and an increase in stock based compensation due to stock options issued in January and March. The increase in loss was partially offset by a gain on the T&T acquisition, as noted in *Financial Highlights - Goodwill* of $6.4 million and a taxation credit for the quarter of $10.3 million, as noted in *Financial Highlights - Taxation.*

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 quarter is mainly as a result of the asset and Company acquisitions as noted in *Key Projects Update*. Capital expenditure is the main cause of the reduction in working capital surplus balances during the majority of the quarters, with the exception of 2Q 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 three months ended March 31, 2013 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

In May 2011, the IASB issued the following standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13") and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after 1 January 2013. There has been no material impact from the adoption of the new and amended standards on the Company's financial statements.

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 Huntington and T&T properties.

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. Additionally, unexpected delays may result in significant increases in the capital expenditures required to develop projects.

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.

Iona is also dependent upon continued access to the Credit Facility to fund its development projects. An inability to access the Credit Facility for any reason, including non-compliance with the operating covenants contained in the Credit Facility may have a material adverse effect on Iona and its operations.

Loss from Operations
Iona has an accumulated deficit at March 31, 2013 of $28,963,000 and at December 31, 2012 of $16,692,000. 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.

Hedging
From time to time the Company may enter into agreements such as the Payment Swap and the hedging agreements entered into with the lenders in the Credit Facility 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, the Company will not benefit from such increases and the Company may nevertheless be obligated to pay royalties on such higher prices, even though such higher prices are not received by it, after giving effect to such agreements.

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.