Iona Energy Inc.
Condensed Consolidated Financial Statements - Unaudited
For the three and six month periods ended June 30, 2014

Contents

(In thousands of US dollars)	Notes	June 30, 2014	December 31, 2013
ASSETS			
Current Assets			
Cash and cash equivalents		$ **32,819**	$ 19,808
Accounts receivable		**20,311**	15,126
Prepaid expenses		**1,144**	551
Restricted cash	5	**75,074**	78,024
Inventory		**58**	1,802
Derivative instruments	13	**-**	293
Total Current Assets		**129,406**	115,604
Restricted cash	5	**7,313**	7,090
Exploration and evaluation assets	6	**135,436**	134,163
Property and equipment	7	**257,859**	274,164
Goodwill		**14,058**	14,058
Total Non-Current Assets		**414,666**	429,475
Total Assets		$ **544,072**	$ 545,079
LIABILITITES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	5	$ **22,534**	$ 19,662
Current derivative liabilities	13	**18,025**	16,867
Total Current Liabilities		**40,559**	36,529
Non-Current Liabilities			
Secured bonds	8	**264,868**	262,450
Decommissioning liabilities	9	**32,847**	17,763
Derivative liabilities	13	**32,131**	31,038
Deferred tax liability		**10,126**	5,111
Total Non-Current Liabilities		**339,972**	316,362
Total Liabilities		**380,531**	352,891
Shareholders' Equity			
Share capital		**177,359**	177,359
Contributed surplus		**10,270**	10,151
Accumulated other comprehensive loss		**(8,456)**	(8,055)
Retained earnings (deficit)		**(15,632)**	12,733
Total Shareholders' Equity		**163,541**	192,188
Total Liabilities and Shareholders' Equity		$ **544,072**	$ 545,079

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

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

(In thousands of US dollars, except for per share and share amounts)	Notes		Three Months Ended June 30 **2014**	Three Months Ended June 30 2013		Six Months Ended June 30 **2014**	Six Months Ended June 30 2013
Revenues	3	$	**27,100**	11,843	$	**62,748**	13,701
Operating costs			**(11,103)**	(5,610)		**(17,611)**	(6,406)
Depletion			**(16,670)**	(4,451)		**(35,598)**	(5,417)
Gross Profit			**(673)**	1,782		**9,539**	1,878
Expenses							
General and administrative			**(3,214)**	(3,092)		**(4,560)**	(6,482)
Exploration and evaluation costs	6		**(84)**	(488)		**(283)**	(774)
Transaction costs	7		**(2,519)**	2		**(3,152)**	(947)
Gain on acquisition			**-**	(278)		**-**	6,327
Total Expenses			**(5,817)**	(3,856)		**(7,995)**	(1,876)
Income (loss) before other expenses			**(6,490)**	(2,074)		**1,544**	2
Gain / (loss) on risk management contracts	13		**(8,762)**	13,863		**(8,474)**	(9,824)
Other finance costs			**(8,284)**	(3,001)		**(16,072)**	(3,800)
Finance income			**4**	3		**6**	11
Foreign exchange gain / (loss)			**(533)**	624		**(352)**	863
Net income / (loss) before tax			**(24,065)**	9,415		**(23,348)**	(12,748)
Income tax recovery (expense)			**(3,962)**	(298)		**(5,017)**	9,920
Net Income / (Loss)			**(28,027)**	9,117		**(28,365)**	(2,828)
Unrealized foreign exchange gain (loss) on net investments			**(5,347)**	5,035		**172**	(776)
Exchange gain (loss) on re-translation of foreign operations			**5,001**	(176)		**(573)**	224
Comprehensive Income (Loss) for the Period		$	**(28,373)**	13,976	$	**(28,766)**	(3,380)

Net loss per share						
- basic	$	**(0.08)**	**0.02**	$	**(0.08)**	**(0.01)**
- diluted	$	**(0.08)**	**0.02**	$	**(0.08)**	**(0.01)**
Weighted average shares outstanding						
- basic		**366,830,868**	377,059,889		**366,830,868**	354,771,120
- diluted		**366,830,868**	377,059,889		**366,830,868**	354,771,120

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 US dollars)		Share Capital	Contributed Surplus	Accumulated other Comprehensive Income (Loss)	Retained Earnings (Deficit)		Total Equity
Balance December 31, 2013	$	177,359	10,151	(8,055)	12,733	$	192,188
Net loss for the period		-	-	-	(28,365)		(28,365)
Share based payments		-	119	-	-		119
Foreign currency translation		-	-	(573)	-		(573)
Unrealized foreign exchange on investment		-	-	172	-		172
Balance June 30, 2014	$	177,359	10,270	(8,456)	(15,632)	$	163,541

(In thousands of US dollars)		Share Capital	Contributed Surplus	Accumulated other Comprehensive Income	Retained Earnings (Deficit)	Total Equity
Balance December 31, 2012	$	156,599	6,208	2,139	(16,733)	148,213
Net loss for the period		-	-	-	(2,828)	(2,828)
Share based payments		-	2,472	-	-	2,472
Foreign currency translation		-	-	224	-	224
Unrealized foreign exchange (loss) / gain on net investments		-	-	(776)	-	(776)
Issue of shares (net of issue costs)		21,048	-	-	-	21,048
Balance June 30, 2013	$	177,647	8,680	1,587	(19,561)	168,353

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

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

(In thousands of US dollars)	Notes		Six Months Ended June 30 2014		Six Months Ended June 30 2013
Cash flows from / (used in) operating activities					
Net loss for the period		$	(28,365)	$	(2,828)
Items not involving cash:					
Depletion, depreciation and amortization			35,623		5,417
Unrealized FX gain / loss			(577)		-
Gain on acquisition			-		(6,606)
Unrealized (gain) loss on fair value of derivative instruments	13		2,544		9,824
Amortization of loan costs			-		-
Income tax recovery / (expense)			5,017		(9,920)
Share based payments			119		2,473
Finance costs			16,072		3,800
			30,433		2,160
Changes in non-cash working capital balances:					
Accounts receivable			(5,185)		(4,167)
Prepaid expenses			(593)		396
Inventory			561		-
Accounts payable and accrued liabilities			1,885		5,358
Cash flow used in operating activities			27,101		3,747
Cash flows from / (used in) financing activities					
Issue of common shares, net of issue costs			-		20,760
Put options – credit facility	13		-		(7,186)
Derivative call options, sold					60,000
Bank loan draw downs net of costs			-		134,300
Bank fees and other interest charges			(323)		-
Interest on bond			(13,063)		-
Repayment of subsidiary loans and derivatives			-		(55,889)
Cash flow from financing activities			(13,386)		151,985
Cash flows from / (used in) investing activities					
Expenditures on property and equipment			(1,805)		(2,262)
Expenditures on exploration and evaluation			(1,803)		(12,814)
Expenditure on acquisition of Orlando interest			-		(45,300)
Purchase of Huntington oil field			-		(137,572)
Disposal of exploration and evaluation assets			-		36,800
Restricted cash			2,725		1,397
Cash flow used in investing activities			(883)		(159,751)
Effect of exchange rate changes on cash			179		(657)
Increase / (decrease) in cash and cash equivalents		$	13,011	$	(4,676)
Cash and cash equivalents, beginning of period			19,808		15,579
Cash and cash equivalents, end of period			32,819		10,903

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

(Unaudited - Tabular amounts are expressed in thousands US 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 registered office of the Company is located at 1600, 333-7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The following sets out the subsidiaries of the Company and the Company's ownership interest in those subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation	Ownership
Iona Energy Company (US) Limited	Delaware, USA	100%
Iona Energy Company (UK) plc	United Kingdom	100%
Iona UK Huntington Ltd.	United Kingdom	100%
Iona UK Developments Co Limited	United Kingdom	100%

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 Board of Directors on August 28, 2014.

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 in the consolidated financial statements for the year ended December 31, 2013. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013.

Change in functional and presentation currency
The Company changed the functional currency of Iona Energy Company (UK) Limited ("Iona UK") from Pounds Sterling to US dollars with effect from October 1, 2013. This change was triggered by the achievement of plateau oil and gas production in the Huntington field and the issuance of $275 million of US denominated debt by Iona UK. Oil and gas prices received by the Company are benchmarked against the US Dollar Brent oil standard. The statement of financial position of Iona UK was translated to US dollars at the October 1, 2013 rate of 1.6204 GBP per 1 USD. Transactions impacting the statement of operations and comprehensive income were translated to US dollar using rates which approximate the rates at the date of transaction. The resulting gains and losses were recorded in the statement of comprehensive income.

In 2013, the Company changed its presentation currency from the Canadian dollars ("CAD") to the US dollar. These consolidated financial statements are presented in US dollars, which is the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new US dollar presentation currency. For the 2013 comparative

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

2. Basis of Presentation - continued

balances the statements of comprehensive income (loss) were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of transactions. Exchange differences rising on translation were shown as a foreign currency translation line item within the AOCI reserve equity. The resulting effect of the change in presentation currency for the three and six months ended June 30, 2014 of ($157,000) and $231,000 respectively on the comparative figures is reflected in the accumulated other comprehensive income at June 30, 2013.

Changes in accounting policies

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Iona's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Iona's financial statements.

Future Accounting Pronouncements

- IFRS 9 Financial Instruments – since November, 2009, the IASB has been in the process of completing a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9, which includes requirements for hedge accounting, accounting for financial assets and liabilities, and impairment of financial instruments. The mandatory effective date of IFRS 9 has been set to January 1, 2018. The Company has not yet determined the impact of the amendments on the Company's financial statements.

- IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company's financial statements.

3. Revenue

		Three Months Ended June 30,			Six Months Ended June 30,	
		2014	2013		**2014**	2013
Oil sales	$	**25,941**	8,813	$	**57,209**	8,813
Gas sales		**1,159**	3,030		**5,539**	4,888
	$	**27,100**	11,843	$	**62,748**	13,701

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

4. Segmented 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.

The accounting policies used for the reportable segments are the same as the Company's accounting policies. For the purposes of monitoring segment performance and allocating resources between segments, the Company's executive officers monitor the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments. The following tables show information regarding the Company's segments.

	Six Month Period Ended June 30, 2014			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	62,748	-	-	**62,748**
Operating costs	(17,611)	-	-	**(17,611)**
Depletion	(35,598)	-	-	**(35,598)**
Gross Profit	9,539	-	-	**9,539**
Other expenses, gain on acquisition, net finance costs	(31,151)	(28)	(1,708)	**(32,887)**
Taxation – recovery / expense	(5,017)	-	-	**(5,017)**
Net income (loss)	(26,629)	(28)	(1,708)	**(28,365)**
	As at June 30, 2014			
Total assets	541,904	938	1,230	**544,072**
Total liabilities	380,200	-	331	**380,531**

	Three Month Period Ended June 30, 2014			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	27,100	-	-	27,100
Operating costs	(11,103)	-	-	(11,103)
Depletion	(16,670)	-	-	(16,670)
Gross Profit / Loss	(673)	-	-	(673)
Other expenses, gain on acquisition, net finance costs	(21,869)	(4)	(1,519)	(23,392)
Taxation – recovery / expense	(3,962)	-	-	(3,962)
Net income (loss)	(26,504)	(4)	(1,519)	(28,027)

	Six Month Period Ended June 30, 2013			
	United Kingdom	**United States**	**Corporate**	**Total**
Revenue	13,701	-	-	13,701
Operating costs	(6,406)	-	-	(6,406)
Depletion	(5,417)	-	-	(5,417)
Gross Profit / Loss	1,878	-	-	1,878
Other expenses, gain on acquisition, net finance costs	(11,313)	- -	(3,313)	(14,626)
Taxation - recovery	9,920	-	-	9,920
Net income (loss)	485	-	(3,313)	(2,828)
	As at June 30, 2013			
Total assets	488,633	920	1,894	481,447
Total liabilities	331,176	-	533	331,709

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

4. Segmented Information - continued

	Three Month Period Ended June 30, 2013			
	United Kingdom	United States	Corporate	Total
Revenue	11,843	-	-	11,843
Operating cost	(5,610)	-	-	(5,610)
Depletion	(4,451)	-	-	(4,451)
Gross Profit / Loss	1,782	-	-	1,782
Net finance costs/other expenses	8,691	-	(1,058)	7,633
Taxation - recovery	(298)	-	-	(298)
Net income (loss)	10,175	-	(1,058)	9,117

5. Restricted Cash

Current

As of June 30, 2014, the Company had a current asset of $75,074,000 (December 31, 2013 - $78,024,000) of restricted cash related to bond proceeds. The bond proceeds can be utilized to retire tranches of call options sold to Britannic Trading Limited and capital expenditure on the development of Orlando and Kells (Note 8). There are no restrictions with respect to the timing of the use of these funds for qualifying items, as such the restricted cash has been reflected as a classified as a current asset. Upon confirmation that both Orlando and Kells have reached first oil any remaining funds will become unrestricted.

As per the terms of the Bond Agreement, $1,637,000 of the $22,534,000 in accounts payable can be paid out of restricted cash.

Non-Current

At June 30, 2014 and December 31, 2013, 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 June 30, 2014, the Company had $7,261,000 of restricted cash (December 31, 2013 - $7,038,000) held for the Company's decommissioning liabilities on the Trent & Tyne properties.

6. Exploration and Evaluation Assets

	Total E&E
As at December 31, 2013	134,163
Additions	1,273
As at June 30, 2014	**135,436**

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

6. Exploration and Evaluation Assets and Deferred Costs - continued

General E&E

During the three and six months ended June 30, 2014, the Company expensed $84,000 (2013 - $488,000) and $283,000 (2013 - $774,000), respectively of exploration and evaluation costs. The additions to general E&E mainly relates to development expenditure on both the Orlando and Kells fields.

7. Property and Equipment

	Development & Production Oil and Gas Assets	Other Fixed Assets	Total
Cost			
At December 31, 2013	331,919	170	332,089
Additions	17,949	188	18,137
At June 30, 2014	**349,868**	**358**	**350,226**
Accumulated depletion, depreciation and amortization			
At December 31, 2013	34,768	74	34,842
Charge for the period	34,415	27	34,442
At June 30, 2014	**69,183**	**101**	**69,284**
Accumulated impairment as at December 31, 2013	**23,580**	**-**	**23,580**
Exchange differences	497	-	497
Carrying value at December 31, 2013	274,068	96	274,164
Carrying value at June 30, 2014	**257,602**	**257**	**257,859**

On April 28, 2014, the Company, through its wholly owned UK subsidiary, Iona UK Developments Co Limited, entered into a Sale and Purchase Agreement ("SPA") with Perenco UK Limited ("Perenco"), to purchase Perenco's remaining 80% working interest, rights, and obligations in the Trent & Tyne fields (including the Trent East Discovery Area). This acquisition will constitute a business combination. A deposit of $2,000,000 was paid to Perenco and has been included in Property & Equipment at June 30, 2014. To date the company has expensed $3,152,000 of costs relating to the acquisition.

Upon satisfaction of certain conditions as set out in the SPA, the Company shall pay to Perenco an additional sum of $18,000,000, as adjusted pursuant to any adjustments as per the SPA and assume all decommissioning liabilities in relation to assets being purchased. Payment shall be made no later than six (6) calendar months after the date of the SPA or on such later date as agreed in writing, subject to normal conditions of closing, including financing and Department of Energy & Climate Change ("DECC") approval. These amounts will be recorded upon closing of the transaction.

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

8. Senior Debt Instruments

As disclosed in Note 12 of the annual audited financial statements for the year ended December 31, 2013, Iona UK issued $275 million in senior secured bonds (the "Bonds") on September 27, 2013, net of discounts of $6.9 million and transaction cost of $8 million, for $260 million. As at June 30, 2014 the fair value of the Bonds were $272.3 million (December 31, 2013 - $275 million). The bonds mature on September 30, 2018. The Bonds carry an annual coupon rate of 9.5% payable semi-annually, were issued at 97.5% of par and are callable in whole or in part at the option of Iona UK at any time. Commencing 30 months after September 30, 2013, the Bonds will be repaid at 15% of the face value every six months with a 25% final payment at maturity plus a specified premium. The Bonds amortization schedule is as follows:

Payment date	Nominal installment amount	Premium on nominal installment
March 2016	41,250,000	5%
September 2016	41,250,000	4%
March 2017	41,250,000	4%
September 2017	41,250,000	3%
March 2018	41,250,000	3%
September 2018 (Maturity)	68,750,000	2%

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

Under the Bond Agreement the Company must maintain, as calculated quarterly:

- liquidity (defined as certain of the restricted group's cash and cash equivalents balances) of at least $30 million,
- a leverage ratio (defined as net interest bearing debt divided by twelve months of earnings before interest, taxes, depreciation and amortization ("EBITDA") of not more than 3.0x, and
- ensure a minimum of both the capital employed ratio (defined as equity divided by the sum of equity and net interest bearing debt) and the restricted capital employed ratio (defined as restricted group equity divided by the sum of restricted group equity and net interest bearing debt) of 40% until from December 31, 2016, and minimum 50% thereafter.

The restricted group is defined as Iona Energy Company (UK) plc and Iona UK Huntington Ltd.

Under the Bond Agreement an event of default constitutes two consecutive quarterly covenant violations. The quarter ended December 31, 2013 was the first quarter that the Company is required to maintain the leverage ratio.

The Company was in breach of the Leverage Ratio at December 31, 2013. At March 31, 2014 and June 30, 2014, the Company was in compliance with the leverage ratio.

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

8. Senior Debt Instruments - continued

The table below delineates the Company's position with respect to the Bond covenants at June 30, 2014

	30-June-14	Covenant
Liquidity as defined	$107,893	Greater than $30,000
Restricted Group Capital Employed Ratio	57%	Greater than 40%
Group Capital Employed Ratio	57%	Greater than 40%
Leverage Ratio	2.0	Not greater than 3.0x

The Bonds are secured against the assets of the Company and its subsidiaries Iona Energy Company (UK) plc and Iona UK Huntington Ltd.

The effective interest rate on the bond at June 30, 2014 was 12.16%.

Balance, December 31, 2013		262,450
Amortization of discount and transaction costs		2,418
As at June 30, 2014	$	264,868

9. Decommissioning Liabilities

Balance December 31, 2013		17,763
Change in estimate		14,568
Discount rate		136
Accretion		380
Balance June 30, 2014	**$**	**32,847**

The total future decommissioning liability was calculated by management based on its net ownership interest in the Orlando, Trent & Tyne 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 2.21% to 3.43% 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 majority of the change in estimate during the quarter was due to a revision in the expected cost of the Huntington decommissioning asset. These cost revisions resulted from an independent decommissioning report completed by the operator of the Company for DECC in June 2014. The costs are expected to be incurred at various intervals over the next 18 years.

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

10. 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 June 30, 2014 had the following common shares, warrants and share options outstanding:

Common shares	**Shares**	**Amounts**
Opening balance, December 31, 2013	**366,830,868**	**$ 177,359**
Issued for cash	**-**	**-**
Share issue costs	**-**	**-**
Ending Balance, June 30, 2014	**366,830,868**	**$ 177,359**

Date of Grant	**Number Outstanding**	**Exercise Price CAD$**	**Weighted Average Remaining Contractual Life**	**Date of Expiry**	**Number Exercisable June 30, 2014**
May 31, 2011	7,850,000	$0.60	0.92 years	May 31, 2015	7,850,000
April 13, 2012	13,040,000	$0.57	2.79 years	April 12, 2017	10,252,500
January 10, 2013	175,000	$0.59	3.53 years	January 10, 2018	175,000
March 5, 2013	5,110,000	$0.63	3.68 years	March 5, 2018	2,705,000
July 29, 2013	175,000	$0.59	4.08 years	July 29, 2018	175,000
October 23, 2013	600,000	$0.63	4.32 years	October 23, 2018	150,000
May 1, 2014	1,350,000	$0.54	4.84 years	May 1, 2019	337,500
	28,300,000				21,645,000

On May 1, 2014, Iona Energy issued 1,350,000 stock options to purchase 1,350,000 common shares of the Company to employees of the Company. The options were issued with an exercise price of $0.54 per share, vest as to one quarter immediately and one quarter on each of the first, second and third anniversaries of the date of grant and have a five year term from the date of issuance.

The Company's share options granted, other than the 175,000 share options granted to person retained to provide investor relations activities, which vest as to ¼ immediately and ¼ on each of the dates three months, six months and nine months thereafter, 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 issued options was estimated using the Black Scholes option pricing model with the following assumptions:

	June 30, 2014
Average expected volatility	51% - 75%
Risk-free rate	1.47% - 3.50%
Expected life	5 years

An estimated forfeiture rate of 5% is used when recording share based payments.

11. Related Party Transactions

During the three and six months ended June 30, 2014, the Company was charged $65,000 (2013 - $54,000) and $99,000 (2013 - $407,000) respectively, in legal fees of which $NIL (2013 - $95,500) related

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

11. Related Party Transactions - continued

to share issuance costs by a law firm where a director of the Company is a partner, of which $49,000 is included in accounts payable and accrued liabilities as at June 30, 2014 and $29,000 as at December 31, 2013.

Included in accounts receivable is $117,483 (2013 - $265,000) due from a former officer and director of the Company who resigned from the Company's management team and Board. Of this amount $117,483 remains to be collected as at June 30, 2014. The amounts owing are non-interest bearing and secured. The Company expects full repayment of the remaining balances in 2014.

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.

12. Commitments and Contingencies

In addition to commitments disclosed in Note 7 and those recorded on the balance sheet, based on management's best estimate, the Company has the following contractual obligations:

	June 30, 2014				
	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	**204**	17	51	51	85
UK Segment					
Office lease	**4,946**	495	1,485	1,485	1,481
Equipment leases	**41,309**	11,408	21,930	7,971	-
Drilling, completion, facility construction	**18,013**	18,013	-	-	-
Total UK Segment	**64,268**	29,916	23,415	9,456	1,481
Total Contractual Obligations	**64,472**	29,933	23,466	9,507	1,566

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

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 $7.0 million with additional payments of $7.0 million, $7.0 million, $4.0 million, and $4.0 million made every six months thereafter respectively, amounting to a total payment of $29.0 million over 3 years.

13. Financial Instruments and Risk Management Contracts

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

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

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

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

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

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 30 June 2014:

	Level 1	Level 2	Level 3	Total Fair Value
Current assets				
Derivative financial assets	-	-	-	-
Current liabilities				
Derivative financial instrument liabilities	-	18,025	-	18,025
Non-current liabilities				
Derivative financial instrument liabilities	-	32,131	-	32,131

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

13. Financial Instruments and Risk Management Contracts - continued

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Cost of derivative options	**-**	**-**	**-**	(7,348)
Realized gain / (loss) on commodity hedges	**(5,930)**	-	**(5,930)**	-
Unrealized gain / (loss) on commodity hedges	**(2,832)**	13,863	**(2,544)**	(2,476)
Total gain / (loss) on commodity hedges	**(8,762)**	13,863	**(8,474)**	(9,824)

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.

i) Commodity Risk

The table above presents the total loss on risk management contracts 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.

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.

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

On September 27, 2013, the Company offset the risk with respect to the 7.4 million remaining call options previously sold to BTL (as noted above) by purchasing 3.1 million call options effective between October 2014 and September 2016 for $33.5 million.

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

13. Financial Instruments and Risk Management Contracts - continued

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

		Call Options (bbls)			Strike ($/bbl)
		Sold	Bought	Net Position	
2014					
	Q2	338,407	-	338,407	95
	Q3	342,125	-	342,125	95
	Q4	762,818	496,901	265,917	95
2015	Q1	478,397	274,396	204,001	95
	Q2	483,711	334,045	149,666	95
	Q3	489,027	377,830	111,197	95
	Q4	489,027	394,678	94,349	95
2016	Q1	470,470	390,723	79,747	95
	Q2	470,468	401,251	69,217	95
	Q3	475,639	418,356	57,283	95
	Q4	475,639	-	475,639	95
2017	Q1	316,429	-	316,429	95
	Q2	319,946	-	319,946	95
	Q3	323,461	-	323,461	95
	Q4	323,461	-	323,461	95
2018	Q1	187,206	-	187,206	95
Total		6,746,231	3,088,180	3,658, 051	

Subsequent to the quarter, Iona UK settled all call options outlined in the above table and entered into new call / put arrangements simultaneously (see Subsequent Events).

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.

iii) Credit Risk

Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge cash, cash equivalents, restricted cash and accounts receivable. Cash, cash equivalents and restricted cash are 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 June 30, 2014, and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2014 or 2013.

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 June 30, 2014, June 30, 2013, or thereafter.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the

13. Financial Instruments and Risk Management Contracts - continued

foreign cash and restricted cash balances at June 30, 2014 would have impacted the net loss and comprehensive loss of the Company for the six month period ended June 30, 2014 by approximately $26,000 (six months ended June 30, 2013 – $308,000).

In addition at June 30, 2014, the Company held approximately $15,112,327 (£8,839,000) (2013- $30,053,000 (£19,760,000)) of accounts payable in Pound Sterling. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates between Pound Sterling and US dollar at June 30, 2014 would impact the net loss and comprehensive loss of the Company for the six month period ended June 30, 2014 by approximately $151,000 (six months ended June 30, 2013 - $301,000).

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 12 and further details of liquidity are discussed in Note 14.

14. Capital Risk Management

The Company manages its capital with the prime objectives of safeguarding the business as a going concern, creating investor confidence, maximizing long-term returns and maintaining an optimal structure to meet its financial commitments and to strengthen its working capital position. At present, the capital structure of the Company is primarily composed of senior secured bonds and shareholders' equity. The Company's strategy is to access capital primarily through equity issuances and other alternative forms of debt financing. The Company actively manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to uphold its capital structure and to meet the liquidity and sufficient funding tests of the senior secured bonds, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels.

As at June 30, 2014, the Company has net assets of $163.5 million, working capital of $88.8 million and commitments due in the next 12 months as further detailed in Note 12. The Company intends to finance its obligations as they come due from current working capital supplemented by future cash flow generated from operations.

15. Subsequent Events

On August 15, 2014, Iona UK settled the remaining 3,658,051 calls (effective April 2014 through March 2018) for two equal payments of $13,250,000, due on August 18, 2014 and February 10, 2015. Simultaneously, Iona UK purchased 458,352 puts (effective August 2014 through July 2015) at a strike price of $90.00 per barrel, and sold 1,650,000 calls (effective October 2018 through March 2020) at a strike price of $90.00 per barrel.

16. Adjustment of Previously Reported Financial Information Due to Change in Presentation Currency

For comparative purposes, the Consolidated Statements of Operations and Comprehensive Loss for the three and six month periods ended June 30, 2013 includes adjustments to reflect the change in accounting policy resulting from the change in presentation currency to US dollars. The amounts previously reported in Canadian Dollars as shown below have been translated into US dollars at the average Q2 2013 exchange rate of 0.98 USD: CAD and the six month average exchange rate of 0.985. The effect of the translation is as follows:

For the three month period ended June 30, 2013	**As previously reported CAD $000**	**As translated at rate of 0.984 $000**
Revenues	$ 12,042	$ 11,843
Operating costs	(5,704)	(5,610)
Depletion	(4,528)	(4,451)
Gross Profit	1,810	1,782
Expenses		
General and administrative	(3,166)	(3,092)
Exploration and evaluation costs	(498)	(488)
Transaction costs	(5)	2
Gain on acquisition	(282)	(278)
Total Expenses	(3,951)	(3,856)
Loss before other expenses	(2,141)	(2,074)
Gain / (loss) on risk management contracts	13,898	13,863
Other finance costs	(3,054)	(3,001)
Finance income	3	3
Foreign exchange gain	636	624
Net income / (loss) before tax	9,342	9,415
Income tax recovery (expense)	(224)	(298)
Net Loss	9,118	9,117
Unrealized foreign exchange gain (loss) on net investments	5,319	5,035
Exchange gain (loss) on re-translation of foreign operations	(407)	(176)
Comprehensive Loss for the Period	$ 14,030	$ 13,976
Net loss per share		
- basic	$ 0.03	$ 0.02
- diluted	$ 0.03	$ 0.02

16. Adjustment of Previously Reported Financial Information Due to Change in Presentation Currency - continued

For the six month period ended June 30, 2013	As previously reported CAD $000	As translated at rate of 0.985 $000
Revenues	$ 13,915	$ 13,701
Operating costs	(6,506)	(6,406)
Depletion	(5,502)	(5,417)
Gross Profit	1,907	1,878
Expenses		
General and administrative	(6,583)	(6,482)
Exploration and evaluation costs	(786)	(774)
Transaction costs	(962)	(947)
Gain on acquisition	6,426	6,327
Total Expenses	(1,905)	(1,876)
Loss before other expenses	2	2
Gain / (loss) on risk management contracts	(9,978)	(9,824)
Other finance costs	(3,859)	(3,800)
Finance income	11	11
Foreign exchange gain	876	863
Net income / (loss) before tax	(12,948)	(12,748)
Income tax recovery (expense)	10,075	9,920
Net Loss	(2,873)	(2,828)
Unrealized foreign exchange gain (loss) on net investments	(788)	(776)
Exchange gain (loss) on re-translation of foreign operations	228	224
Comprehensive Loss for the Period	$ (3,433)	$ (3,380)
Net loss per share		
- basic	$ (0.01)	$ (0.01)
- diluted	$ (0.01)	$ (0.01)

16. Adjustment of Previously Reported Financial Information Due to Change in Presentation Currency - continued

For the six month period ended June 30, 2013		As previously reported CAD $000	As translated USD $000	Reclassification[1] USD $000	As Adjusted USD $000
Cash flow used in operating activities	$	(9,069)	(8,937)	12,684	3,747
Cash flow from financing activities		167,544	164,337	(12,352)	151,985
Cash flows from / (used in) investing activities		(159,274)	(156,885)	(2,866)	(159,751)
Effect of exchange rate changes on cash		(3,240)	(3,191)	2,534	(657)
Increase / (decrease) in cash and cash equivalents		(4,039)	(4,676)	-	(4,676)
Cash and cash equivalents, beginning of period		15,500	-	-	15,579
Cash and cash equivalents, end of period	$	11,461	-	-	10,903

[1]Certain amounts have been reclassified to conform with presentation used in the year end 2013 audited financial statements. These reclassifications primarily result from the Company including costs, expenses and working capital items in cash inflows and outflows from financing activities and investing activities versus operating activities as previously reported.

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

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